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## ABSTRACT

This report examines current knowledge about the nature, development, and consequences of competition and market reform in the Australian vocational education and training (VET) sector. In the process, the policy context and key aspects of the theory and practice of a competitive training market are analyzed. These other topics related to the training market are discussed: preconditions for an effective training market; failure of the training market; size, structure, and composition of the training market; and types and levels of competition in the training market. Two forms of models of competition and market reform are described. The supply side models include performance agreements, competitive tendering, and preferred supplier arrangements. The demand side models include fee-for-service, user choice, intermediaries, and vouchers. The relative advantages and disadvantages of different resource allocation mechanisms are analyzed. Central policy issues are explored, including the role of government and approaches to the funding and regulation of VET. Six key policy issues are examined: clients and control over training decisions; VET products; access and equity; community service obligations; competitive neutrality; and costing and pricing. Research on the social, economic, educational, and political impacts and consequences of competition and market reform is reviewed. Some directions for further research are suggested. The report contains 108 references. (YLB)

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# Competition and market reform in the Australian VET sector

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Competition and market  
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*Damon Anderson*



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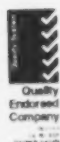
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# Contents

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|                                                          |    |
|----------------------------------------------------------|----|
| Executive summary                                        | 1  |
| Context                                                  | 3  |
| Definitions of the training market                       | 7  |
| Policy principles and objectives of the training market  | 10 |
| Pre-conditions for an effective training market          | 12 |
| Failure of the training market                           | 15 |
| Size, structure and composition of the training market   | 17 |
| Types and levels of competition in training market       | 21 |
| Models of competition and market reform                  | 23 |
| The role of government                                   | 35 |
| Funding of the training market                           | 39 |
| Regulation of the training market                        | 42 |
| Key policy issues                                        | 46 |
| Impact and consequences of competition and market reform | 54 |
| Findings and directions for further research             | 65 |
| References                                               | 67 |

# Executive summary

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SINCE THE MID-1980s, Commonwealth, State and Territory governments have been engaged in a process of reform with the aim of increasing the efficiency, flexibility, quality and responsiveness of the vocational education and training (VET) sector in Australia. Among the most important of recent policy developments is the introduction of competition and market reforms. The concept of a training market is now a central feature of government reports and policy literature on VET. The training market has become the dominant model for reframing the relationship between skills supply and demand, and for re-engineering the structure, culture and operations of the VET sector. Within the market framework, competition has been adopted as the key principle for reorganising the financing and delivery of VET programs and services.

Recent attempts to promote the development of a competitive training market are unprecedented in the history of the Australian VET sector. They represent a radical shift from traditional approaches to the provision of VET programs and services which, up to the late 1980s, occurred largely under non-market conditions (Anderson 1996a). The policies and practices associated with the development of a competitive training market have far-reaching implications for participants in the VET sector. They challenge longstanding assumptions about the nature and purposes of VET, and necessitate a thoroughgoing review of the roles, responsibilities and relationships of all stakeholders. As a consequence, the development of a competitive training market has sparked considerable debate in the VET sector.

The purpose of this report is to examine current knowledge about the nature, development and consequences of competition and market reform in the Australian VET sector. In the process, the policy context and key aspects of the theory and practice of a competitive training market are analysed. Research on the dimensions of the training market, and on the types and levels of competition is examined. Central policy issues are explored including: models of competition and market reform; the role of government; and approaches to the funding and regulation of VET. Research on the impact and consequences

of competition and market reform is reviewed. Finally, some issues requiring further investigation are identified.

The report draws upon a wide range of published research relating to trends and developments in the Australian training market. Both government-sponsored policy reviews and independent research have been included in an effort to provide a balanced perspective on the current state of play. In doing so, the report attempts to clarify the nature and scope of contemporary policy debate about the development of a competitive training market.

The report aims to reach a wide audience including policy-makers, researchers, practitioners and students in the public and private sectors. It builds on work in two previous publications: *Reading the market. A review of literature on the vocational education and training market in Australia* (Anderson 1996b) which was published by the Monash University-ACER Centre for the Economics of Education and Training; and *Developing the training market of the future: A review of research literature prepared as a submission to the Australian National Training Authority* (NCVER 1997). The latter publication was prepared by Damon Anderson for the National Centre for Vocational Education Research Ltd. in response to the Australian National Training Authority *Developing the training market of the future: A consultation paper* (ANTA 1996). Whereas the latter publication focussed on specific options for policy development as defined by ANTA, this report analyses available research from a broader perspective.

## The open training market

THE CONCEPT OF a training market first emerged in the context of the micro-economic reform strategy initiated by the federal government in the latter half of the 1980s. In essence, this strategy aimed to address Australia's balance of payments problems by enhancing the productivity and international competitiveness of Australian industry. One of the key elements of the strategy was the development of a highly skilled and adaptable workforce through a combination of labour market and training reform. The restructuring of industrial awards, together with strategies to improve the national skills base and forge closer links between skills supply and demand, were seen to be essential pre-conditions for addressing Australia's economic problems (ACTU/TDC 1987; Dawkins & Holding 1987; Dawkins 1988, 1989).

In response to a projected increase in demand for training from individuals and industry as a result of award restructuring and workplace reform, the Deveson review (1990) identified a need to improve the efficiency and effectiveness of the training system.

The Deveson review suggested that, unlike industry and private providers, the public technical and further education (TAFE) system had become too insular and inflexible as a consequence of its longstanding reliance on government subsidisation. It echoed the views of government and industry that TAFE would require substantial renovation if it was to remain relevant and responsive to the rapidly changing skill requirements of individuals and industry.

In order to re-orient TAFE to the needs of industry and the workplace, the Deveson review advocated major changes to traditional funding, recognition and delivery arrangements in the training system. In particular, it recommended the development of a more open and diverse training market comprising high-quality providers in the public and private sectors.

*An important trend, which award restructuring can be expected to accelerate, is the development of a more comprehensive set of markets for training. Increasingly the decision by individuals and organisations to undertake training will involve a choice between public, industry and private training providers*  
(Deveson 1990, p. 9).

According to Deveson, TAFE would become more efficient and client-oriented if it was subject to greater competition for public VET funds. In a climate of public sector budgetary restraint, it proposed that TAFE should adopt a more entrepreneurial approach to income generation, particularly from industry. In Deveson's view, reforms to training supply would also have to be accompanied by an increase in the level of private investment in training by individuals and industry.

Following the Deveson review, the concept of an 'open training market' was endorsed by all Commonwealth, State and Territory VET ministers. In April 1992, the development of 'an efficient, effective, responsive and integrated training market' was incorporated in the *Common and agreed national goals for vocational education and training in Australia* (MOVEET 1992).

## Competition policy

Another key element of the federal government's micro-economic reform strategy was the development of a national competition policy. Since the mid-1980s, the federal government had taken steps to improve the international competitiveness of the Australian economy through various initiatives such as financial deregulation and tariff reform. In 1992 as part of the ongoing process of reform, the federal government appointed an Independent Inquiry into National Competition Policy, chaired by Professor Fred Hilmer (Hilmer 1993). Its brief was to identify barriers to the development of an open and integrated national market. Hilmer focussed attention on removing impediments to market-based competition created by government regulation and government ownership. To this end, Hilmer recommended a set of national competition principles for reforming the operations of government business enterprises including:

- ❖ removal of regulations which restrict competition
- ❖ restructuring of public monopolies

- ❖ facilitation of 'third party' access to public facilities; and
- ❖ fostering of 'competitive neutrality' between government and private businesses.

As Ryan states, 'the two main outcomes of the Hilmer inquiry were to promote a single integrated market throughout the Australian Federation and to introduce competitive disciplines into the public sector to certain areas like the regulated professions' (1995, p. 24). The recommendations of the Hilmer Report (1993) were subsequently endorsed by the Council of Australian Governments (COAG) in 1994 and collective agreement was reached in April 1995 to implement a National Competition Policy based on the Hilmer recommendations.

Although the extent to which the principles underpinning the National Competition Policy will apply to the VET sector remains unclear, it appears likely that the principle of competitive neutrality will have a significant impact on public VET providers (Harmsworth 1996). Commonly referred to as a 'level-playing field', competitive neutrality is 'the situation where no provider, public or private, has a competitive advantage or disadvantage as a result of government policy regulations' (ANTA 1996, p. 37).

## Australian National Training Authority

In 1992, the Australian National Training Authority (ANTA) was established to co-ordinate the development of a national training market. In support of its plan for market reform in the national VET sector, ANTA released *Towards a skilled Australia. A national strategy for vocational education and training* (ANTA 1994c). According to ANTA (1994c, Foreword), it aims to ensure that VET is:

- ❖ more flexible, to accommodate the needs of industry as the principal client
- ❖ more devolved, so that decisions are taken by those most closely attuned to the needs of clients
- ❖ more competitive, to encourage the quest for superior performance
- ❖ more informed, so that all parties are aware of the directions and detail of change

Enhancing choice and diversity for clients and increasing provider responsiveness to client needs through competition is identified as one of the four main national priorities. ANTA (1994c) identifies a number of strategies to promote greater responsiveness including: 'opening up the training market'; an expansion of competitive funding processes; the introduction of 'user-choice' arrangements for apprenticeship/traineeship training; removal of barriers to market entry for industry and private providers; improving access to training for small business and disadvantaged groups; and increasing industry involvement in resource allocation processes.

In late 1996, ANTA released *Developing the training market of the future. A consultation paper* (ANTA 1996) as a basis for establishing a national approach to training market development. The following rationale was offered for the development of a competitive training market:

*In order to develop the skills which underpin the competitiveness of business, reform in vocational education and training must keep pace with reform in the industries it services. Otherwise, Australia will have difficulty in responding to competitive pressures. Indications are that vocational education and training at present does not fully address the needs of business. Employers want more relevant, flexible and cost-effective training. They also want more input into training content and stronger more responsive relationships with providers. A more competitive and effective market for vocational education and training, or training market, will help achieve these goals.* (ANTA 1996, p. 1)

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0 The consultation paper presents a range of options for reforming existing administrative, delivery, funding and regulatory arrangements in the training market. At the time of preparing this report, ANTA was considering its response to submissions received.

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# Definitions of the training market

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 RIGINATING FROM ECONOMIC theory, the concept of a market has been used loosely in the past by policy-makers and planners to describe the relationship between learners and educational providers. In recent times, however, it has been applied in a more systematic and extensive manner to shape the provision of education and training services:

*Although learning is not a commodity that can be mechanically bought and sold in the marketplace, the metaphor of demand and supply is a potentially useful one in relation to services that have learning as their main objective. The desire and propensity of individuals to engage in various learning activities can be defined as 'demand'. The provision of education and training programmes, courses, packages and other products/activities that aid conscious learning may be represented as 'supply'.*  
(OECD 1995, p. 11)

According to the OECD (1995, p. 13), the development of markets in post-school education and training along commercial lines is a necessary consequence of the increasing diversification of demand in terms of client groups, learning objectives, and the social, geographical and cultural situations of learners:

*This diversity of demand clearly needs to be matched by a diversity of supply which is unlikely to be provided by any one type of institution, or even necessarily by a single nationally-supervised 'system' of education and training. The supply of educational services is starting to look less like a traditional public service and more like an industry—potentially with international as well as domestic 'outlets'.*

The OECD identifies several supply-side trends which are contributing to the development of markets in post-school education and training; specifically, greater diversification of institutional frameworks, new learning technologies, and new financial frameworks.

Although the training market has become a central metaphor in Australian VET policy since Deveson (1990), the concept lacks clear definition (Anderson

1996b). Selby Smith notes that although the training market has been the focus of considerable debate in recent times, 'the content and meaning of the term generally has received less attention' (1995, p. 9).

ANTA suggests that the training market 'consists of individuals, enterprises and governments, on the demand side, interacting with public and private providers, on the supply side, for the delivery of training products which leads to a diverse and flexible national skills pool' (1996, p. 3). ANTA describes the framework for market structures in VET as a continuum running between 'pure public' and 'pure private' poles: 'In between these two extremes are a range of alternatives which range from government purchasing training through its public provider . . . to individuals and governments purchasing training from both public and private providers' (1996, p. 33).

Most analysts view the training market as being synonymous with the VET sector—generally understood to denote the sphere of post-secondary, non-degree level education and training (e.g. ACG 1994b). According to ANTA (1996, p. 3) 'the training market encompasses *all* of vocational education and training' which includes TAFE and non-TAFE providers. But as growing numbers of schools and universities enter the marketplace, the precise sectoral boundaries of the training market become increasingly unclear (Anderson 1996b).

Anderson notes also that both policy and research literature to date has overlooked 'the relationship between the development of a national training market in Australia and the emergence of global and regional markets in education and training services' (1996b, p. 34). The rapid expansion of modern communications technology and export education are likely to render national boundaries obsolete in the not distant future (OECD 1995).

Many researchers and educationalists question the relevance and efficacy of applying economic concepts and language to education and training (e.g. Anderson 1996b; Fooks 1995; Kell 1993, 1995; Kenway et al. 1993; Marginson 1993; Miller 1997; Ryan 1995). Although the OECD (1995) argues that the concept of a supply and demand relationship is useful for analysing educational provision, it acknowledges that it is problematic when applied to learning itself. In particular, it notes that with the increasing trend towards self-directed and autonomous learning, the line between supply and demand

is becoming increasingly blurred. More generally, Ryan argues that 'the insights available from economic theory . . . are such that extreme caution is needed before utilising them as a basis for policy—specifically, for a policy of fostering markets in VET' (1995, p. 32). Despite such reservations, the concept of a training market is now widely employed by VET policy-makers and seems likely to retain currency for some time.

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# Policy principles and objectives of the training market

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THE LACK OF clear policy principles and objectives for the development of a training market has been noted by several analysts (Anderson 1996b). Selby Smith argues that the concept of a training market 'would appear at times to be used as a proxy for the desire to make the VET system more "efficient", more "responsive" or more "commercial"' (1995, p. 8). Lundberg (1994) suggests that in spite of the collective endorsement of the training market concept by Commonwealth, State and Territory governments, the policy objectives remain 'fuzzy'.

Official policy statements and government-commissioned reports express the policy objectives of a training market in terms of promoting greater efficiency and effectiveness in the delivery of VET programs and services. Deveson (1990) suggests that a market-driven approach to VET aims to raise the quantum of training provision; increase choice and diversity for the consumer; reduce training costs; and generally enhance the efficiency, quality and responsiveness of training delivery.

Burke et al. (1994) state that the purposes of developing a training market are to provide competition for TAFE, stimulate efficiency, and increase private sources of finance in a period of tight public funding. In addition, 'one of the main reasons for stimulating the development of a market is to increase awareness of both the content of VET and, for employers, awareness of their particular needs and the capacity to have them met' (Burke et al. 1994, p. 62). Fisher (1993) argues that the creation of a national training market is intended to promote responsiveness, flexibility, cost-effectiveness, diversity and innovation.

Noting the lack of a clear and coherent set of policy objectives, NCVER (1997, p. 3) suggests that the aims of developing a competitive training market are to:

- ❖ stimulate greater competition among public and private providers and thereby increase incentives for providers to respond to client needs, particularly enterprises/industry
- ❖ enhance efficiency and effectiveness in publicly funded training
- ❖ increase private investment in training by individuals and enterprises/industry
- ❖ promote the development of a more integrated and nationally consistent training system

Foyster (1997) observes that the emphasis on competition in recent policy developments 'is frequently confused with the market concept. Often competition and markets are viewed as synonymous when in fact a market can be either competitive or uncompetitive' (1997, p. 1).

As noted in NCVER (1997), several analysts have commented on the existence of a policy conflict between the principles of competition and co-operation underlying recent training market reforms. Lundberg argues that 'it is probably only in the context of greater clarity on the question of what kind of "open training market" is being sought that concrete meaning can be given to "competition" and "co-operation" as policy principles in the training reform agenda' (1994, p. 9).

# Pre-conditions for an effective training market

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THE ESTABLISHMENT OF an effective training market requires certain pre-conditions to be met. According to Burke et al. (1994) the development of a competitive training market necessitates the existence of:

- ❖ a large number of actual or potential buyers and sellers
- ❖ a relatively standardised or homogeneous product
- ❖ sufficient (if not perfect) information about levels of supply and demand

Research suggests that these three major pre-conditions have not yet been satisfied. First, the supply side of the market is presently 'thin' due to insufficient numbers of private providers both of trade and technical training, and in non-metropolitan areas (ACG 1994b; Anderson 1995a, 1996a; WADOT 1995, 1996). Secondly, the precise nature of products in the training market lacks adequate definition (Anderson 1996b; NCVER 1997). This is compounded by a lack of common product descriptors to reflect the distinctive characteristics of products in a consistent manner (ACG 1994a, 1994b). Thirdly, research shows that the quantity and quality of information on training supply and demand is presently insufficient (NCVER 1997).

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Other pre-conditions identified in the literature include the need to: establish a direct relationship between clients and providers with minimum external interference; ensure that barriers to market entry remain low and that a state of competitive neutrality exists among providers; and improve the responsiveness of the supply side of the training market through the application of the national competition principles (see variously ACG 1994a, 1994b; ANTA 1996; Selby Smith 1995; Selby Smith et al. 1996; Taylor 1996). Others have emphasised the need to establish a consistent set of rules and expectations to govern the behaviour of participants in the training market (ACG 1994b; Fisher 1993; Fooks, Ryan & Schofield 1996; Schofield 1996; Ryan 1995).

Several commentators contend that reforms to date have failed to realise government policy objectives either because of an imperfect understanding of the pre-conditions for an effective training market, or because of a partial application of competition principles to training market development. ACG (1994a, 1994b) and Selby Smith (1995) argue that government has been overly concerned with reforming the supply side of the market and promoting competition among providers at the expense of demand-side reforms to increase client choice. Other factors are identified as having contributed to sub-optimal outcomes including: barriers to market entry for small enterprises, imperfect information about supply and demand, a lack of transparency in costing/pricing structures and unnecessary government regulation of the marketplace. As a consequence, Wiltshire reports that: 'the so-called training market . . . is not, at present, a pure market. In particular, it is not demand driven, it is provider and funding driven. Moreover there is not perfect knowledge in the market because there is not a complete sharing of information throughout' (1997, p. 3).

Available research supports the general proposition that there is a need to strengthen the demand side of the market. A survey of enterprises by Coopers and Lybrand finds that 'employers believe there is little capacity to influence the training system at the current time, that this situation has not changed over the past few years, and that they are interested in exercising considerably more influence' (1996, p. 5). Research on TAFE student perceptions of training market reforms suggests that they also wish to exercise greater influence over the policy priorities and directions of their providers and the VET system as a whole (Anderson 1995c; Anderson & Hoare 1996).

Other analysts are critical of the undue emphasis which they claim is being placed on promoting competition in the training market for its own sake. In the absence of all the necessary pre-conditions for an effective training market, they suggest that such an approach may be counterproductive. Fooks, Ryan and Schofield argue that:

*The approach adopted by some governments . . . to bring about a greater client focus has relied in the main on attempts to create a competitive market for training in the hope that competitive forces would suddenly cause dramatic changes in TAFE. This has been an extremely blunt policy instrument, one guaranteed not to produce the desired effect for many years if only because of the failure to entice significant numbers of genuine alternative providers into the market.*

(1996, p. 4)

Taylor (1996) cautions that promoting greater competition should not be viewed as an end in itself, but rather as a means to achieve greater efficiency and quality in training provision. Taylor finds that the development of competitive strategies for the training market has been 'slow' and highlights the need for 'a coherent national strategy for market-linked reform' (1996, p. 124). Coopers and Lybrand conclude that 'the major danger . . . is that in a training system that is still relatively immature in its understanding of effective competition, a focus on short term gains will develop at the expense of the long term commitment to build a high quality, national training system' (1996, p. 6).

# Failure of the training market

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**G**ENERAL AGREEMENT EXISTS in the literature that VET makes an important contribution to social and economic development (ACG 1994a, 1994b; Finn 1991; FitzGerald 1994; Sweet 1993, 1994). Research suggests, however, that markets are subject to various types of failure which may reduce or negate the social and economic externalities (i.e. 'spill over' or flow-on effects) of VET:

*In general, market failure occurs when market operations alone fail to result in optimal levels of provision or accepted standards of efficiency or fairness . . . In the context of vocational education and training, market failure means that, by itself, the market is unlikely to invest in socially or economically optimal levels of training* (ANTA 1996, p. 14).

According to ANTA (1996), market failure may occur when: prices negotiated between providers and clients for the exchange of goods and services do not adequately reflect externalities; public good attributes are unlikely to attract private financing; insufficient competitive forces are present to ensure effective resource allocation; and information systems are inadequate to fully inform market participants.

ACG (1994a, 1994b) identifies several causes of potential failure in a training market including: the absence of perfect or sufficient information on training supply and demand; deficiencies in information transmission about the value of VET to enterprises and individuals; and insufficient incentives to maintain high standards of service quality, access for disadvantaged groups, and consumer protection. Research suggests that markets based solely on the training decisions of private individuals and enterprises in isolation can lead to under-investment in key industry and occupational sectors. Such instances of market failure can, in turn, produce collective economic problems such as the recurrence of general skills shortages and increased levels of unemployment with undesirable economic and social consequences (ACG 1994a, 1994b; Anderson 1994; FitzGerald 1994; Lundberg 1994).

Sloan (1994a) identifies several causes of failure in the market for worker training. On the supply side, employers may under-invest in training due to riskiness and imperfections caused by a range of factors such as: high rates of worker turnover; poaching by other firms; purportedly high training wages for apprentices; and imperfect access to capital. On the demand side, employees may under-invest in training due to an inability to fund their own training (either through forgone wages or lack of access to capital), or because of imperfect information about the costs and benefits of training.

Other analysts question standard economic accounts that suggest that employers under-invest in general training because of their inability to capture the benefits of skill development (due to staff turnover, poaching etc.). Sweet (1990) argues that firms are more concerned about quality and value than cost, and are more willing to invest in initial vocational preparation than is typically assumed in conventional economic analyses. FitzGerald (1994) maintains that the cause of sub-optimal levels of private investment in training is not poaching, but rather 'short-termism' and a failure by enterprises to appreciate the long-term implications of under-investment in internal training.

Dawkins (1988) suggests that among the main reasons for under-investment in training by Australian industry are: an historical reliance on skilled immigrants; negative management attitudes; and misunderstanding of the costs and benefits of training.

Critics consider that markets in education and training are inherently subject to serious failure because they value private gain, economic efficiency and consumerism at the expense of public and collective goods such as distributional justice, social equity, and democratic governance. They also argue that the logic of commercial markets tends to disorganise social and economic development, and skew the provision of training towards the short-term skill demands of individuals and enterprises at the expense of the longer term needs of industry and society as a whole (see variously Anderson 1995b; Blackmore 1991; Fooks 1995; Kell 1993, 1995; Marginson 1993).

# Size, structure and composition of the training market

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CONCEPTUAL FRAMEWORKS FOR analysing the size, structure and composition of the training market are generally under-developed, and authoritative data is difficult to obtain (Anderson 1996b; Burke et al. 1996). Efforts have been made to segment the training market by funding mode, client type, qualifications, and fields of study with varying degrees of success (see variously ACG 1994b; Anderson 1994; Venning 1993; WADOT 1996b; Ward 1993). In most cases, the dimensions of the training market are analysed in terms of participation and finance. The following examination provides a brief overview of research on the profile of the national training market.

Deveson (1990) distinguishes between the government-funded TAFE sector which operates largely on non-market principles and the 'industry-funded training market' in which there is direct competition for resources and clients. According to consultants to the Deveson review, industry invested about \$1.3 billion per annum in training during 1989, compared to government recurrent expenditure on TAFE which amounted to \$1.6 billion. The consultants estimated that the industry-funded training market could grow by 50 per cent or \$600 million by 1995. Deveson (1990, p. 11) also describes the structure of the training market in terms of 'a developing market for training outputs' (i.e. competencies) and a further developed 'series of markets for training inputs' (i.e. training staff, fee-for-service activities). The utility of this conceptual framework is limited in the absence of clear definitions of, and comprehensive data on, inputs and outputs in VET.

ACG (1994b) identifies three market sectors by funding mode: the first sector involves direct government funding of institutions—primarily TAFE—and is described as a *quasi-market* in which some market-like processes exist and at least implicit competition occurs. The second sector is the *funding market* or 'market for government training funds which are open to competitive tendering rather than channelled directly to institutions' (1994b, p. 49). This

market sector comprises funding allocated on a competitive basis under three main groups of Commonwealth Government programs: the Australian Traineeship System; Labour Market Programs; the Adult Migrant Education Program; and ANTA growth funds allocated by State governments. The third sector is the *open or commercial training market* in which 'the ultimate users of training directly purchase training "products" from providers' (ibid.). ACG notes that this latter sector is the only one in which genuine market processes apply.

According to ACG (1994b), the overall size of the training market was between \$6.5 and \$8.6 billion in 1992. In terms of providers, the single largest sector was TAFE which accounted for around \$3 billion in revenue, followed by: the 'supplier, equipment manufacturer' sector estimated to be between \$1.0 and \$1.7 billion; internal enterprise provision estimated at around \$1.1 billion; the commercial training business and non-profit training organisation sectors each estimated to be between \$0.5 and \$1.0 billion in size; the adult and community education sector at between \$250 and \$500 million; industry skill centres at between \$200 and \$250 million; and the business college sector at between \$60 and \$150 million.

In terms of providers and clients, there were 704 TAFE institutions providing training to 1.7 million students in 1992. Most TAFE income (87%) is derived from direct payments from Commonwealth or State/Territory governments. Around 1200 registered private providers were offering accredited courses, but only an estimated 25 per cent of private providers were conducting accredited courses in 1993.

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18

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ACG (1994b) identifies Commonwealth and State/Territory governments as the largest group of purchasers, accounting for just under half of the total training market income. Training expenditure by enterprises accounted for an estimated 43 per cent of training market purchases (omitting trainee wage and salary costs). ACG found that large firms (100 or more employees) spent more than twice as much per capita as small firms (under 20 employees), and accounted for three quarters of enterprise training expenditure including wages and salaries.

The international market for Australian VET consists of training delivered both on-shore to private and government-sponsored full-fee-paying overseas students, and off-shore through programs funded primarily by the Australian

International Development Aid Bureau (AIDAB) or by private clients (ACG 1994b). In 1993, about 12 per cent of all overseas students in Australia were enrolled in TAFE. There were 4409 students enrolled in TAFE diploma/certificate courses, representing about 50 per cent of all such enrolments in the VET sector. The remaining 4358 overseas students were enrolled in private provider certificate courses. Although there are presently no statistical data on the aggregate level of expenditure by overseas students in Australia, ACG estimates that total overseas student fees amounted to about \$100-115 million in 1993, including about \$45 million in Commonwealth Government funds for English Language Intensive Courses for Overseas Students (ELICOS).

Anderson (1994, 1996a) identifies three major market sectors on the basis of existing financial and regulatory arrangements as follows: a *regulated or closed market sector*, in which access to government funds is restricted to public training institutions, principally TAFE providers, and in which resource allocation and training delivery are subject to relatively high levels of government planning and regulation; a *partially regulated or quasi-market sector*, in which government funds are allocated to public and private providers via simulated market processes such as competitive tendering and funding submissions, and in which training delivery is subject to partial government regulation (i.e. provider registration and course accreditation, performance agreements and contractual accountability); and a *deregulated or open market sector*, in which training providers (public and private) engage in direct competition for clients and resources (e.g. overseas students, industry training contracts) and in which training delivery is relatively free of government regulation.

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Anderson (1995a) estimates that in 1993, the TAFE sector accounted for 79 per cent of all enrolments in courses leading to diploma and vocational qualifications, excluding those attained through the school and university sectors. The private (non-TAFE) training sector (including private sector and adult and community education [ACE] providers) accounted for the remaining 21 per cent, with industry skills centres and business colleges accounting for a total of five per cent. In terms of participation, the private (non-TAFE) sector was estimated to be about one quarter the size of the TAFE sector. In terms of training revenue, the private (non-TAFE) sector was estimated to be approximately 19 per cent larger than the TAFE sector. In terms of provider numbers, the partially regulated or quasi-market sector was found

to be expanding due to steady annual increases in the number of registered private (non-TAFE) providers.

Anderson (1995a, 1996a) finds that unregistered private providers vastly outnumber registered private providers, and that the majority of registered private providers deliver non-accredited short courses. This finding is confirmed by more recent survey data which shows that in 1994 only 6 per cent of an estimated total of 3200 commercial training providers in Australia delivered government-accredited training courses (ABS 1996).

According to ANTA (1996), the supply side of the market consists of 84 TAFE institutes delivering 85 per cent of training and 2500 registered private providers (commercial, industry based, enterprises, and community based) and an unknown number of unregistered providers delivering 15 per cent of training. Training products include: preparatory vocational programs; entry-level vocational programs; advanced skills training; training to update skills; and programs for access and re-entry to the labour force. The demand side of the market consists of individuals; enterprises who spend \$4.4 billion per year on training from public and private providers; and governments which spend \$2.7 billion per year on training, mainly through TAFE.

# Types and levels of competition in the training market

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PRIOR TO THE training market reforms, competition between public and private providers was indirect and limited in scope, due largely to government policies which restricted access to government funds and recognition to public TAFE providers (Anderson 1996a). During the late 1980s and early 1990s, there was 'an intensification of competitive pressures in those areas of the training market in which genuine free or open market conditions prevail . . . and where government has taken steps to introduce quasi-market mechanisms such as competitive tendering for labour market program funds' (Anderson 1994, p. 158). As a direct result of recent government reforms to the legislative, funding and regulatory arrangements governing the VET sector, the type and level of competition in the training market is changing (ACG 1994a, 1994b; Anderson 1994, 1996a; Selby Smith 1995).

Intrasectoral competition in the public and private sectors tends to be stronger than competition between public and private providers (Anderson 1994). In the context of the quasi-market sector, 'the degree of competition among TAFE institutions (is) very heavily influenced by the priorities of each of the State TAFE systems and in turn those of their governments' (ACG 1994b, p. 51). Anderson (1994) found that competition between and within TAFE colleges is generally more intense than competition with private providers. Other sources of competition for TAFE include ACE providers (especially Skillshare) and universities (ACG 1994b; Anderson 1994).

Anderson (1994) finds that private providers tend to specialise in short course provision for niche markets, rather than compete directly with TAFE colleges in the market for publicly accredited programs. In this regard, private providers are 'complementing public sector provision by "soaking up" unmet demand and expanding the market for post-school training' (Anderson 1994, pp. 155-56). Competition among private providers in the open market sector is intense. The degree of competition appears to be determined largely by the

level of unmet demand in the public sector, and influenced by fluctuations in the level of government funding for TAFE sector provision (Anderson 1994).

According to ACG, 'the degree to which TAFE competes directly with private providers varies by State, depending on the commercial strategy . . . of the respective State training authorities' (1994b, p. 78). Competition between TAFE and private providers tends to have been strongest for Commonwealth Government Labour Market Program (LMP) funds which form part of the market sector where competitive funding processes apply (ACG 1994b; Anderson 1994). The share of LMP funding won by private providers through competitive tendering appears to have increased dramatically between the period from 1988 to 1994 (Anderson 1996a).

Competition between TAFE and private providers is also vigorous in the open or commercial market sector which includes fee-for-service activity and international education (ACG 1994b; Anderson 1994). Although competition between TAFE and private providers is increasing, 'TAFE colleges occupy a dominant position . . . in all segments of the training market', particularly the largest school-leaver market (Anderson 1994, p. 154).

Competition between public and private providers is largely confined within State boundaries, although interstate competition appears to be increasing (Anderson 1994). Taylor (1996) identifies the federalist structure of the Australian VET system as the major impediment to the development of competition on a national basis and argues for greater consistency in approaches to training market development by State and Territory governments.

# Models of competition and market reform

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**M**ODELS OF REFORM which aim to increase competition in the training market can take one of two forms. They can increase competition among providers through reforms *on the supply side* of the market. In such cases, competition is driven by government rather than by clients. Alternatively, they can increase competitive pressures on providers through reforms *on the demand side* of the market. In these cases, competition is driven by clients rather than government (although government may purchase training on behalf of clients). Reforms on the supply side of the market can be structural, organisational and financial in nature, whereas demand-side reforms tend to be mostly financial.

## Supply-side models

In recent years, most competition and market reforms have involved reforms on the supply side of the market which aim either to increase direct competition among providers, or enhance the influence of clients over the nature of training provision through indirect means (ACG 1994a, 1994b).

Supply-side reforms which increase the influence of clients over training providers by indirect means include: establishing mechanisms to facilitate industry input to government training policy and program priorities (e.g. ITABs and industry training plans/State training profiles); developing and delivering training courses and credentials against industry-determined competency standards and a national qualifications framework; promoting jointly funded training ventures between providers and clients (e.g. industry skill centres); linking government resource allocations to outcomes-based performance indicators (via provider performance agreements); increasing provider reliance on private sources of income (individual fees and industry contracts); and measuring provider performance against benchmarks for client satisfaction (e.g. client satisfaction studies). Various combinations of these

strategies are currently employed by State training authorities in Australia, and in the United Kingdom (UK) Further Education sector.

### **Performance agreements**

The allocation of government funds through regular performance agreements based on specified goals and targets is one option for fostering a more responsive training market. Such an arrangement 'embodies a purchaser/provider split with the central government as allocator of public monies establishing an arm's length, quasi-contractual relationship with semi-autonomous public sector agencies' (Curtain 1995, p. 94). Curtain identifies several characteristics of UK models which improve the effectiveness of performance agreements including: publication of performance goals and targets in annual provider reports; integration of client-focussed quality standards into performance goals and targets; and publication and dissemination of comparative performance data at the provider level (including output/outcome measures of course completion, qualification and post-course job placement rates).

### **Competitive tendering**

Competitive tendering is a direct mechanism for stimulating competition among providers. Rather than channelling funds directly to institutions, government purchases training places from public and/or private providers on the basis of competitive bids. The aim of making public VET funds more contestable is to increase the efficiency, flexibility and responsiveness of publicly-funded training provision.

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24

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As noted already, competitive tendering is used by the Commonwealth Government to allocate funds for LMPs, the Adult Migrant English Program, the Australian Traineeship Program and a number of other programs. State and Territory governments employ competitive tendering processes to allocate a proportion of ANTA growth funds, in addition to some other program funds under their control. For example, Commonwealth funding for the Pre-Employment Program is allocated via competitive tender in NSW and Victoria.

WADOT (1995, 1996a) identifies two approaches to competitive tendering that have been used by State and Territory governments in recent years. The 'quarantining approach' refers to the practice of allocating specified funds to

private providers via competitive tender. Quarantining is essentially a transitional model of competition that enables funding authorities to phase in competitive tendering on a wider basis in a controlled manner. According to WADOT, it has the advantages of minimising the negative impact of competitive tendering on public providers, generating a larger pool of potential private competitors over the longer term, and enabling government to test and modify its administrative processes. The second approach is open or 'direct competition', which refers to the practice of opening up competitive tendering processes to both public and private providers. This is the end-point which a quarantining approach aims to reach.

According to the Steering Committee for the Review of Commonwealth/State Service Provision (SCRCSSP 1997), State and Territory governments allocated about \$70 million of public VET funds by competitive tender in 1995, which included \$21 million of ANTA growth funds (see table 1). In total, funds allocated by competitive tender accounted for two per cent of national recurrent expenditure on VET in 1995, of which 52 per cent was allocated to private providers and 48 per cent to public providers.

Table 1: VET recurrent expenditure allocated for public tender, 1995 (\$'000)

| Competitive tendering              | NSW       | Vic     | Qld     | WA      | SA       | Tas    | ACT    | NT     | Aust      |
|------------------------------------|-----------|---------|---------|---------|----------|--------|--------|--------|-----------|
| Recurrent expenditure              | 1 252 290 | 769 070 | 452 087 | 290 757 | 2 36 766 | 77 058 | 77 380 | 64 140 | 3 306 880 |
| Funds awarded to public providers  | 11 939    | 12 695  | 2 479   | 4 070   | 1 346    | 452    | 502    | 1 355  | 33 441    |
| Funds awarded to private providers | 9 889     | 17 780  | 2 213   | 3 390   | 2 069    | 493    | 487    | 877    | 36 242    |
| Total funds tendered               | 21 828    | 30 475  | 4 692   | 7 460   | 3 415    | 945    | 989    | 2 232  | 69 683    |

Source: SCRCSSP (1997) *Report on government service provision*, vol. 1, SCRCSSP, Canberra.

## Preferred supplier arrangements

Preferred supplier arrangements (PSAs) are a variant of the competitive tendering model. Under PSAs, a limited number of providers are selected on the basis of past performance to participate in a competitive tendering process to deliver specified training services. Governments tend to use PSAs in market segments where insufficient numbers of high-quality providers exist to ensure effective price competition and program quality. As with competitive tendering, governments retain control over provider choice and resource allocation. Clients remain one step removed from the actual training decision.

## Demand-side models

Demand-side competition and market reforms aim to increase competitive pressures on providers by empowering clients over providers. As identified in NCVER (1997), there are three key strategies for empowering clients in the context of a training market. These involve giving clients: maximum direct control over training decisions; sufficient information to make effective choices; and assistance to negotiate with training providers.

Of the three strategies, the most important one involves giving clients direct control over training decisions. As NCVER (1997) notes, training decisions occur in two stages: product choice and resource allocation. Product choice entails choosing between alternative training providers and courses, and selecting the desired characteristics of the training package including: course content; timing; sequencing; location; mode of delivery; assessment methods; and support services. Resource allocation involves the allocation of money or its substitute in return for an agreed package of training services. Four basic models, with some variants, exist for giving clients direct control over training decisions: fee-for-service; user choice; intermediaries; and vouchers.

20

## Fee-for-service

Under a fee-for-service (FFS) model, 'the ultimate users of training directly purchase training "products" from providers' (ACG 1994b, p. 49). FFS arrangements give clients (individuals and enterprises) maximum direct control over both product choice and resource allocation. Market theory suggests that providers must supply training which satisfies the needs and preferences of fee-paying clients in terms of price, quality, relevance and value for money, if they are to survive in the training market. Consequently

competition among providers under the FFS model is more direct than under any alternative model. FFS arrangements apply in the open or commercial training market sector, and supplement recurrent government funding in the public TAFE sector in the form of partial tuition fees and charges for non-academic services. In both cases, fees tend to be paid up front prior to course commencement (ACG 1994b; Anderson 1994; NCVER 1997; Ryan 1995). One variation of the FFS model is a combination of deferred fees and income-contingent repayments akin to the Higher Education Contributions Scheme (HECS) which applies to university-level students. Such a scheme has the potential to offset the disadvantageous impact of up-front fees on access, although some analysts dispute this claim. The application of a deferred fee payment scheme in the VET sector is problematic due to substantial constitutional/jurisdictional and administrative complexities (Ryan 1995).

### User choice

'User choice' aims to strengthen client control over training decisions by enhancing the influence of employers and their employees over: who provides the training; where it is delivered; how it is delivered; and what is delivered (ANTA 1994b, 1996). Theoretically, employers and their employees (apprentices and trainees) jointly select a training provider with whom they enter direct negotiations to develop a customised training plan. Once agreement has been reached between the client(s) and provider, the appropriate funds are released by government to the chosen training provider. In this regard, user choice gives clients direct control over product choice (i.e. choice of provider, course and course characteristics), and indirect control over resource allocation. Government retains direct control over the allocation of resources. Various analysts note that it is unclear whether both clients (i.e. the employer and employee/student) will be able to exercise choice on an equitable basis under such arrangements (Fooks 1995; Ryan 1995; Selby Smith et al. 1996).

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27

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### Intermediaries

Due to the imperfect state of information and the inability of certain client groups to exercise effective choice, attention has focussed on the need to provide clients with appropriate assistance (NCVER 1997). One strategy for improving the links between the supply and demand sides of the training market is to employ intermediaries as brokers between providers and clients.

The role of intermediaries could include: collecting, analysing and disseminating information on training options; assisting clients to negotiate with providers in order to make effective choices; and making training decisions on behalf of clients (NCVER 1997).

Curtain (1995) identifies a potential role for intermediaries as purchasers of training services based on two models developed in the UK and Europe. The first model involves government-established and funded intermediaries such as the UK Training and Enterprise Councils (TECS). TECS are separately incorporated, controlled and managed bodies to which government delegates responsibility for allocating training funds within a framework of operational guidelines and accounting procedures. Under this franchising arrangement, such bodies operate as relatively autonomous brokers who match clients with training providers and, in the case of unemployed youth, with employers. The second model is based on public law or compulsory chambers of commerce which operate in parts of Europe. It involves the allocation of funds to independent intermediaries who are not subject to the same government-imposed constraints as apply under the former model.

## Vouchers

Vouchers are certificates or statements which entitle holders to purchase education and training services up to a specified financial limit from a government-approved provider of their choice. Additional services which cost more than the government-determined value of the voucher may be purchased privately by the client through a 'topping-up' mechanism. Voucher-based systems have been employed in school systems in certain states of the USA and in the UK, where they take the form of 'training credits' for unemployed youth.

Education and training guarantees are another form of voucher which entitles holders to a defined amount of publicly funded education. Youth guarantees which entitle young people to two years of post-compulsory education and training have been considered by various government committees in recent years in Australia, but have not yet been implemented (Lundberg 1994).

One local variation of the voucher mechanism is 'user buys', which was originally proposed by ACG (1994a). Although the underlying principles of the two models are similar, user buys differs from a voucher scheme in that it

treats both the employer and the employee/student, specifically apprentices and trainees, as the joint client. The rationale advanced for this variation is that the imperfect state of information about training options, employment opportunities and career paths reduces the capacity of students/trainees to make effective choices on an individual basis. ACG also argued that because employers are the end-users of VET skills and qualifications, they should have a prominent role in training decisions. User buys was subsequently modified into user choice on the grounds that giving public resources to enterprise clients 'may involve business in unnecessary contractual and audit requirements' (ANTA 1994a, p. 31).

## Analysis of models

Evaluating the relative advantages and disadvantages of different resource allocation mechanisms is a complex task involving consideration of a diverse range of issues and competing policy objectives. For this reason, and because many of these funding models are relatively new and untested, no consensus has yet been reached about which models are most appropriate for the Australian VET sector.

ANTA (1996) notes that 'there are no "right and wrong" answers' for how a particular market should be structured. It argues that different market arrangements can co-exist within a single market framework, and that the selection of models should take account of prevailing market conditions and desired outcomes. In particular, 'consideration must be given to who is making the purchasing decision and the degree of contestability of the market' (ANTA 1996, p. 33).

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Curtain is critical of existing performance-agreement-funding models in Australia due to 'the heavily centralised nature of decision making about future demand for courses, utilising limited knowledge of actual client needs' (1995, p. 95). He also highlights the tendency for such models to limit the accountability of individual providers to clients as a result of governments adopting a narrow focus on measures to reduce costs while maintaining or expanding services.

Competitive tendering is generally considered to achieve greater improvements in market efficiency as it increases direct competition among providers. But because government retains control over decisions about both

product choice and resource allocation, competitive tendering 'strengthens supply-side competition but does not necessarily enhance market responsiveness or empower clients' (NCVER 1997, p. 9). Concerns have also been expressed about the potentially negative impact of competitive tendering on: educational quality; access and equity; provider planning; and organisational stability (see variously Anderson 1994; Carmichael 1992; Fooks 1995; Kell 1993, 1995; Lundberg 1994; Yeatman 1994). Although a national study of competitive tendering processes by WADOT (1995, 1996a) found little evidence of negative consequences, it highlights other problems including: high administrative costs; resource-intensiveness; and increasing private provider dependence on government funds.

Market advocates favour demand-side models of competitive resource allocation over supply-side models 'with the individual client exercising direct market choices in accessing training from suppliers, *wherever the conditions for this to apply can be met*' (ACG 1994b, p. 204). Elsewhere, ACG (1994a) argues that recent government initiatives have placed inordinate emphasis on supply-side reform at the expense of demand-side concerns, and have been too centralist in their approach. Consequently, ACG recommends that governments should refocus on strategies to stimulate competition through the demand-side of the market by empowering clients to allocate public training resources at the local enterprise level.

Advocates of free-market competition in VET argue that the FFS arrangements are the most efficient and effective market mechanism, as clients exercise total control over training decisions and providers are forced into direct demand-driven competition. Research suggests that provider competition in a FFS environment is more intense and direct than under alternative models of resource allocation (Anderson 1994; ACG 1994b). ANTA (1996) notes that FFS activities promote private investment in training.

Critics argue that market imperfections, especially the lack of sufficient information, limit the capacity of clients to exercise effective choice in a free training market. They also argue that FFS arrangements are inappropriate in a VET system which is expected to pursue non-economic policy objectives such as improved access and quality (Anderson 1994; Barnett 1994; ESFC 1989; Lundberg 1994; Ryan 1995).

User choice is nominated in government-sponsored reports as the preferred model of competitive resource allocation in the training market (ACG 1994b; ANTA 1994b; Coopers & Lybrand 1996). Specifically, it is argued that by shifting control over product choice from government to clients, user choice empowers clients to determine 'the success or otherwise of providers that are willing to respond to those preferences' (Coopers & Lybrand 1996, p. 68). In effect, user choice is seen to promote greater efficiency and responsiveness in the allocation of public training resources by stimulating direct demand-driven competition among providers.

Although user choice is yet to be fully implemented, critics argue that it may have adverse effects and unintended consequences including: a fragmentation of the national training effort; loss of community access to publicly funded training facilities; exacerbation of gender and social inequities; a reduction in quality; fewer economies-of-scale; substitution of public for private funding; and insufficient public accountability (see variously Anderson 1995b; Fooks 1995; Gonczi 1996; Ryan 1995; Selby Smith et al. 1996). Such analysts consider user choice to be an inappropriate model for the VET sector.

Various forms of intermediaries already operate within the training market (ACG 1994a; DEETYA 1996; NBEET 1996). According to Curtain (1995), the major disadvantage of government-established and funded intermediaries is that such bodies tend to respond to centrally determined performance measures and administrative guidelines rather than client needs and preferences. In his view, independent funding intermediaries represent a superior model for stimulating demand-responsive training provision as they have greater scope for managing and adapting government funds to the local skill requirements of business and industry clients. The only proviso is that independent intermediaries should be owned and controlled by business and broadly representative of constituents (Curtain 1995).

Under the latter model, ANTA notes that 'tighter quality controls and accountability mechanisms may be needed to protect the consumer' (1996, p.11). Other potential drawbacks associated with the use of intermediaries include: the creation of a new layer of bureaucracy; and conflicts of interest where the intermediary (e.g. Group Training Company) is also the provider and employer (ANTA 1996; Fooks 1995). Fooks (1995) argues that the use of intermediaries counteracts the objective of establishing more direct client-provider relationships.

Voucher-based mechanisms and variants such as user buys accord clients the same degree of control over training decisions as in user choice, but additionally give them ultimate control over the allocation of resources. For this reason, Curtain (1995) suggests that they are superior instruments of demand-side market reform. Research from the UK suggests that training credits have done little so far to empower clients (individuals and employers) and have had 'limited impact on the training market' (Coopers & Lybrand 1994, p. 4). But the slow rate of change may owe more to the lack of sufficient implementation time and market imperfections (e.g. lack of information, insufficient numbers of competing providers) than to flaws in the model itself.

Vouchers appear to have other potential advantages over alternative demand-side models of competition and market reform. Provided that the store of value is sufficient to cover the costs associated with extra support services for disadvantaged clients, vouchers and user buys theoretically avoid the negative effects of FFS on access to VET. But such models are relatively untested and their full impact on educational quality and social equity is unknown (Lundberg 1994; Ryan 1995). Moreover, many of the criticisms made of user choice apply equally to vouchers and user buys.

Research suggests that different models of competitive resource allocation are appropriate for different segments of the training market depending on prevailing market conditions and desired policy outcomes (NCVER 1997). FFS and competitive tendering arrangements are most effective where large numbers of alternative providers exist (ACG 1994b). PSAs provide a mechanism for promoting provider competition and safeguarding quality when markets are 'thin' (WADOT 1995, 1996a). Although PSAs offer the potential for greater efficiency and stability in training provision, they may limit genuine competition due to the potential lack of openness and transparency in funding decisions (WADOT 1995, 1996a). User choice does not necessarily require large numbers of training providers to be effective, although client influence and market efficiency are considerably enhanced when there is a diverse range of suppliers (Selby Smith et al. 1996).

Arguments that non-trade students in VET should be excluded from exercising user choice due to economic externalities and the lack of 'employer sponsors' are open to question. In support of demand-side models over supply-side mechanisms for resource allocation, ACG contends that 'the aggregation of individual preferences for types of education and training will

generally reflect labour market demand more effectively than decisions taken by smaller groups of education and training officials with access only to imperfect information about the labour market and about the needs of enterprises' (1994a, p. 137). Similarly, it can be argued that decisions taken by individual employers in response to firm-specific needs are also unlikely to reflect either the full range of current or future skill requirements in industry and the labour market (FitzGerald 1994).

There is no evidence to suggest that non-trade students in VET are any less informed about labour market demand or less capable of exercising market choices than are (generally younger and less experienced) apprentices/trainees. As ACG (1994a, 1994b) notes, self-funded individual students already exercise considerable choice in the open or commercial training sector without any apparent adverse economic consequences. Ryan suggests that 'individuals . . . are, in the medium term, adept at picking swings in career opportunities' (1995, p.37).

Individual vouchers are deemed to be inappropriate for the VET sector on other grounds. ACG (1994a) argues that a voucher-based system would be difficult to develop due to the extreme variation in the costs and length of VET courses, together with the inadequate nature of information about real costs in the VET sector. Both these factors 'appear to preclude any general move to introducing an *individual* voucher system in the immediately foreseeable future and at the same time suggest some practical difficulties in setting a value on vouchers' (ACG 1994a, p. 138). Sweet agrees that the lack of detailed information on cost structures creates some difficulties in setting the value of vouchers but contends that 'this is not an insoluble problem' (1994, p. 78).

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Research suggests that a blended approach to the use of competitive funding mechanisms may produce new models with possible advantages over existing ones (ACG cited in ANTA 1996). Fooks, Ryan and Schofield (1996) have proposed a mixed-funding model for the national training market which comprises: user choice; open tendering; and base grants for individual TAFE institutes. Further research is required to determine the feasibility and desirability of different competitive funding mechanisms, and combinations thereof, for different market segments.

Due to market imperfections, social externalities and administrative costs, research suggests there are several market segments in which competitive

funding processes may be inappropriate. Specifically, these include training for: small business; rural and regional communities; school leavers; special-needs groups; and short-course provision (NCVER 1997). Even in these market segments, market advocates argue that demand-driven models of competitive resource allocation should be favoured over supply-side models such as competitive tendering and direct institutional funding. In cases where 'individuals cannot readily exercise their own market choices, the most appropriate government response is to support mechanisms to restore or enhance their ability to do so' (ACG 1994b, p. 187). Strategies for enhancing client choice in the training market are discussed in NCVER (1997).

# The role of government

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THE DEVELOPMENT OF a competitive training market entails a fundamental revision of the traditional role of government in relation to VET provision. Throughout its long history in Australia, VET has been viewed primarily as the responsibility of government. Prior to the development of a training market, the formal VET system in Australia was characterised by public provision, funding and regulation (Anderson 1996a). The seminal Kangan report (1974) argued that vocational education should be planned, co-ordinated and delivered by government through an integrated system of publicly-owned and controlled TAFE institutions, in combination with non-profit ACE organisations. Underlying Kangan was a conviction that subjecting TAFE to the vagaries of market forces and the profit motive would jeopardise its vital contribution to social and economic development.

Until the mid-1980s, the Kangan approach went largely unchallenged, with the result that it defined and underpinned the role of government with respect to VET. Critics of competition and market reform in VET maintain that the Kangan principles are equally relevant to contemporary conditions and should therefore continue to shape and inform the role of government. Rather than allow private profit, competition and commercialism to determine the provision of VET, they argue that government has a basic responsibility to distribute the benefits of VET according to social and economic need, and in the wider public interest (e.g. Anderson 1995b; Kell 1993, 1995; Miller 1997).

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Deveson (1990) signalled a major shift in official definitions of the role of government with its promotion of a market-based approach to VET provision. In essence, Deveson advocated 'the establishment of a training partnership' between government and industry (1990, p. 61). Deveson argued that industry should assume increasing responsibility for, and control of, the provision and funding of VET. In Deveson's view, government's role is to complement business and industry by establishing an environment which facilitates optimal levels of private investment and participation in VET. This entails maximising the scope for competition and client choice in a training market

while at the same time protecting public good attributes such as quality and access.

Building on the Deveson model, ACG (1994a, 1994b) argues that the main role of government is to provide the policy framework, and set the rules and standards for market operation. This entails: maintaining the integrity of public VET credentials as 'social currency' so as to facilitate wide recognition and portability of skills; correcting market failures, particularly in relation to information and equity of access; and ensuring quality and consumer protection through course accreditation and provider registration. From ACG's perspective, the central aim of the regulatory role of government should be to promote competition. According to ACG, the social objectives of VET can be accommodated through special government measures to control standards of service quality, and to protect equity and other social concerns.

In relation to industry training, FitzGerald (1994) identifies two key objectives for government: first, to ensure that the pool of skilled labour is sufficiently broad, deep and mobile (with ready portability of skills) to contribute to economic dynamism and adaptability; and secondly, to provide assistance in managing collective problems such as the recurrence of general skill shortages which may be immune to, or even exacerbated by, individual decisions taken by firms.

Increasing emphasis has been placed on the need for government to withdraw from its traditional role as the dominant funder, provider and regulator of VET delivery (ACG 1994a, 1994b; Selby Smith 1995; Taylor 1996). In accordance with the Hilmer competition principles, these reports propose that government should view itself primarily as a *purchaser* of programs and services on behalf of the taxpaying community, a *facilitator* of market competition, and a *regulator* of market behaviour. According to ACG, this new market model necessitates making a clear-cut distinction between the roles of central government (i.e. market facilitator, market regulator, and purchaser) on the one hand, and the role of providers as *service deliverers* on the other hand. Typically it involves strengthening both local management autonomy and accountability for outcomes 'under a light central co-ordinating role', and stimulating efficiency and responsiveness to clients through increased competitive pressures on service providers.

The rationale for creating the purchaser/provider split is that potential conflicts of interest may arise if government is simultaneously both the sole or main purchaser *and* the sole or main provider of VET programs and services in competition with private providers. It is argued that such conflicts of interest may result in inefficient pricing and resource allocation (ANTA 1994a, 1994b; ANTA 1996; Selby Smith 1995).

ANTA (1996) proposes that the role played by government should entail 'providing a regulatory framework for the operation of the competitive market, and responding to market failures and promoting equity' (1996, p. 13). Two important factors which must be taken into account when determining the appropriate nature and extent of government involvement are: the extent to which a market is, or can become, contestable; and the federal structure and division of power among Commonwealth, State and Territory governments. According to ANTA, the two key roles identified for government suggest that it should pursue its responsibilities by fulfilling four key functions: as funder, purchaser, provider and regulator. Some examples of government involvement are listed in table 2.

Table 2: Some examples of government involvement in the training market

| Role function | Facilitate and shape market                                                                                                                                                              | Respond to market failure and promote equity                                                                                                                                                                                            |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Funder        | Shift public resources to fund areas of high training priority<br>Transfer funding to clients for purchase (e.g. user choice)                                                            | Provide funding to meet under-investment<br>Transfer funding to intermediaries to purchase on behalf of clients                                                                                                                         |
| Purchaser     | Tender to public and private providers                                                                                                                                                   | Purchase on behalf of individuals not well placed to make market decisions (e.g. through information failure)<br>Profile funding with clear contractual arrangements of specified outputs<br>Purchase places targeted for equity groups |
| Provider      | Establish basis for TAFE to operate commercially                                                                                                                                         | Ensure supply of training where providers not present in market or market is subject to natural monopoly (e.g. owing to high cost of entry)                                                                                             |
| Regulator     | Establish basis for interstate competition<br>Establish admission items which facilitate client/student choice and provider marketing<br>Ensure competitive neutrality between providers | Regulate operations of provider (public or private) where market is subject to monopoly<br>Provide market information to clients and providers (including labour market information)<br>Publish performance information                 |

Source: ANTA 1996, *Developing the training market of the future: A consultation paper*, ANTA, Brisbane, p. 26.

Free-market liberals argue that there is limited, if any, justification for government intervention in education and training markets, either in the form of subsidisation or regulation (Borland 1990; Chapman & Stemp 1992; Sloan 1994a, 1994b). Sloan (1994a, 1994b) contends that government intervention in the market is likely to be more detrimental than market failure. Chapman and Stemp state that 'if there is training under-provision in Australia it is the consequence of misguided rules and policies associated with labour market regulation and the removal of these impediments is the appropriate government strategy' (1992, p. 354).

OECD (1995) observes that there is considerable uncertainty about the appropriate nature of government's future role in relation to post-school education and training, especially with the emergence of 'information superhighways'. It argues that 'there is a strong case for governments to play a strategic or "steering" role in relation to sectors where they cannot necessarily expect to be the main provider of services, but where there is value in influencing or providing a coherent framework for a range of providers' (1995, p. 37). Such a role may involve partnerships with providers or market regulation. A key question is whether governments should be viewed as 'highway-builders' or as 'traffic planners':

*The expected impact of information superhighways has caused free-market advocates to worry that there will be too much planning, and planners to worry that there will be chaos. Between the two extremes, there is widespread acknowledgment that the government's role will be significant, alongside a high degree of activity by the private sector. Yet there is no consensus about how exactly to divide responsibilities between the public and private sectors.*

(OECD 1995, p. 40)

38

Wiltshire (1997) reaches similar conclusions in a review of factors affecting the training market in Queensland. He argues that 'in the light of . . . the increasing emphasis on the market as a driving force, it is time . . . to consider public and private roles in the VET sector' (1997, p. 7). According to Wiltshire, the future division of responsibilities between the public and private sectors is 'the pivotal question' in the debate about competition and market reform in the VET sector. On the one hand, there are 'private providers who wish that government would simply "with away" in VET, just as there are no doubt others of the contrary opinion' (Wiltshire 1997, p. 41). The challenge for policy-makers is to define the functions which could be considered as legitimate roles for government 'even though the delivery of many of them could be achieved by either public or private provision' (Wiltshire 1997, p. 7).

# Funding of the training market

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PRIOR TO THE inception of the national training reform agenda in the mid-1980s, TAFE was almost wholly subsidised by government. Revenue for recurrent and capital expenditure was raised through a universal tax-funded system in the belief that the benefits of TAFE are shared equally among the immediate participants on the one hand, and society and the economy on the other. This approach reflected the widely-held commitment to the principle of 'free public access' to TAFE which stemmed, in part, from the Kangan report (1974). Kangan argued that the significant short-term costs of establishing a universally-accessible public TAFE system were justified on the basis of the long-term benefits to individuals and society at large:

*The achievement of the reality is . . . fraught with difficulties, not least of which is economic. The cost to the community presents it with one more in the long series of economic choices which make up political as well as private life. The present cost must be weighed against possible future gain to the individual and society.*

(Kangan 1974, p. 30)

Following the Kangan report, the federal government increased recurrent and capital expenditure on TAFE, introduced subsidies for needy students, and placed a prohibition on tuition fees for tertiary (including TAFE) courses. In subsequent years, however, the long-term viability of the Kangan goal of unrestricted access has been called into question, due to increasing social and economic demands on the public TAFE system in a context of diminishing resources (ESFC 1991; Hawke & Sweet 1983; Scott 1989).

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At the opposite end of the ideological spectrum, free-market liberals argue that private individuals rather than taxpayers should subsidise the costs of training. In their view, training is an activity in which individuals invest in expectation of a private financial return. Invoking the 'user-pays' principle, free market liberals hold that employers and employees should be responsible for meeting the costs of training in direct proportion to the benefits they enjoy. They argue that employees enjoy most of the benefits of generic training and should therefore be responsible for meeting the associated costs. On the other hand, they contend that both employers and employees enjoy the benefits of

firm-specific training. Benefits accrue to employers in the form of increased productivity and profit, and employees enjoy future wage increases and greater labour market flexibility. Hence as the joint private beneficiaries of specific training, employers and employees should share the cost burden accordingly (Sloan 1994a, 1994b).

In between the opposite poles of 'free public access' and 'user pays', Deveson (1990) proposes a mixed model of funding which combines elements of both approaches. In determining the appropriate distribution of financial responsibility among the various stakeholders, Deveson employs the distinction between generic and specific training as a general 'rule of thumb'. He proposes that the public benefits of generic training are great enough to justify a continuing contribution from the government/taxpaying community. But Deveson argues that government funds are 'inevitably restricted' and that 'it is not reasonable for the training system to be expected to expand capacity at the public expense' (1990, p. 35). From Deveson's perspective, the private benefits of generic training enjoyed by individuals and industry/enterprises are sufficient to justify private contributions. Accordingly, Deveson invokes the principle of user pays to argue that the cost burden of generic training should be shared more equitably among the three major beneficiaries: individuals, industry/enterprises and the government/taxpaying community. However, 'to the extent that enterprises want more specific training, it is reasonable that they should meet the cost' (Deveson 1990, p. 35).

Following Deveson (1990), a general consensus has been reached that a strong case exists for substantial public subsidisation of generic training, now referred to as initial or entry-level training (NBEET 1992; Sweet 1993, 1994):

*The externalities are so high as to justify a major public role in funding. The community has a strong interest, as do individuals and enterprises, in the widespread acquisition of portable and generic vocational skills and qualifications. After individuals have gained such skills and qualifications the funding of further skill development can be argued to be largely their responsibility and that of enterprises. But prior to that point the community has an obligation to fund vocational education and training. (Sweet 1994, pp. 76, 78)*

Shreeve (1995) questions the utility of the distinction between initial and post-initial training as a basis for allocating financial responsibility due to the difficulty of defining clear boundaries.

According to ACG (1994a), the nature and scope of government's funding role should be determined by a consideration of the social and economic externalities of VET. Like Deveson, ACG argues that both social and economic grounds exist to support a major role for government in the funding of: entry-level training; remedial training for the unemployed; and special measures to ensure access to training by disadvantaged groups. Economic considerations, on the other hand, do not justify a significant role for government subsidisation of industry training. Rather, the private beneficiaries of post-initial training (i.e. enterprises and individuals) should share joint responsibility for meeting the costs. Although there may be some justification for government funding in cases where under-investment occurs, 'the *extent* of resources provided, relative to what enterprises and individuals contribute, depends on assessed social benefits and costs and is a matter of priorities' (ACG 1994a, p. 69).

Research shows that models for evaluating the costs and benefits of VET are under-developed (Burke 1995; Maglen 1990, 1993; Maglen et al. 1994). The OECD notes that 'the optimal division of funding responsibilities . . . remains an important point for discussion' (1995, p.14). In particular, it argues that although the notion of shared funding responsibilities has gained wider acceptance, mechanisms for cost-sharing need to be carefully designed to ensure that they do not reduce access for those unable to pay.

# Regulation of the training market

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**M**OST ANALYSTS ACCEPT the need for government regulation, given the potential for market failure to jeopardise the public-interest objectives of VET. Opinions differ over the degree of regulation required.

As noted already, free-market liberals favour market forces over government regulation as a mechanism for ensuring optimal private returns on investment in training (Borland 1990; Chapman & Stemp 1992; Sloan 1994a, 1994b). Government regulation of training is seen to contribute to uneconomic outcomes due to the costs involved in establishing and maintaining regulatory mechanisms, and the consequential costs of compliance borne by private providers (Martin 1995; Sloan 1994a, 1994b). Moreover, the bureaucratic requirements associated with government regulation are said to inhibit the flexibility and responsiveness of private providers (ACPET 1995; Anderson 1994). As a consequence, private providers claim to have 'lost some of the uniqueness that has given (them) a special niche in the market' (Martin 1995, p. 181).

Deveson (1990) argues that an appropriate degree of regulation can assist the effective operation of the market by promoting quality and portability of skills recognition. Specifically, he identifies a need for effective accreditation and certification mechanisms for industry and private providers. Other benefits are that regulation increases efficiency in training by: recognising skills in the workforce; reducing duplication of effort; and encouraging better resource utilisation. However, Deveson argues that because government regulation can distort the efficient operation of the market, 'it needs to be applied with a light hand' (1990, p. 36). In order to minimise costs and duplication of effort, Deveson argues for a national approach to market regulation.

Following the Deveson model, significant reforms to the regulatory structure for VET were initiated in an effort to promote the development of a national training market. The most notable reform was the development of the National Framework for the Recognition of Training (NFROT). Initially formulated by the Vocational Education, Employment and Training Advisory Committee

(VEETAC 1991), NFROT provided the mechanism whereby training delivered by registered private and industry providers could be granted equivalent public recognition to TAFE courses.

Uppermost in ACG's order of regulatory priorities is the need for government to maintain the 'social currency' of the training market through a national system of provider registration and course accreditation which promotes the recognisability and portability of VET skills. ACG argues that 'the role of government in registration and accreditation should . . . ensure maximum opportunity for entry to the training market while ensuring necessary *consumer protection* and in particular, protection of the system of public qualifications' (1994b, pp. 187-188, their emphasis). In support of these objectives, ACG (1994a) proposes that a 'code of best practice' be developed to which public and private providers should commit in exchange for public funds. To build a sense of ownership among enterprise clients, ACG (1994a) suggests that, wherever possible, industry should exercise the accreditation function (in effect under delegation).

A consistent theme running through recent proposals for regulatory reforms is the need for greater simplicity, flexibility, and accountability at the interface between provider and client (NCVER 1997). ACG (1994a) argues that 'government regulation of and intervention in the market is constricting rather than fostering its development' (ACG 1994a, p. iii). ACG reports that: provider registration and course accreditation systems are inflexible, costly, and unnecessarily bureaucratic; the rules for market operation are inconsistent and unclear; and the roles and responsibilities of key stakeholders at all levels of the system are confused. ACG proposes that existing structures be rationalised and streamlined in such a way as to promote a demand-side focus for training market reform, and to facilitate more direct interaction between providers and clients, especially enterprises.

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43

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Taylor argues that 'regulation should be applied sparingly' (1996, p. 135). He suggests that existing regulatory structures and processes in the VET system are unnecessarily complex and require simplification. Taylor proposes that the number of points of (and players involved in) central regulation of the training recognition system should be reduced in order to emphasise continuous improvement rather than up-front regulation, and to allow clients 'to demand and reward quality provision in a more market-oriented system' (1996, p. 135). To this end, he recommends that responsibility for course accreditation should

shift from government to providers; government registration of providers should be enhanced by increasing the focus on quality improvement and client needs; and government should establish necessary audit procedures. In response to criticisms of existing regulatory mechanisms such as NFROT, a new approach to training development and recognition is being implemented to facilitate the shift to a more demand-driven training market (ANTA 1997). The new National Training Framework (NTF) consists of two inter-connected features: new recognition arrangements and training packages. According to ANTA, 'the National Training Framework is designed to simplify the way training is regulated, define who is responsible for it and describe how high standards of quality can be guaranteed' (1997, p. 3).

The deregulated approach to VET promoted by the NTF has attracted some criticism. A major source of concern is that under the NTF, 'responsibility for curriculum development is being removed from the hands of educators, and the powers of course accreditation and credentialling are being delegated to employers and recognised training providers, most of whom are private for-profit providers' (Anderson 1997b). Potential problems include: fragmentation of the national training effort; a lowering of standards; loss of comparability and credibility of VET qualifications; and a dilution of controls on quality, access and consumer protection (see variously Anderson 1997a, 1997b; Chapman 1997; Peoples 1996b). Chapman argues that 'a lack of confidence in the quality of some qualifications could lead to the whole system becoming unworkable' (1997, p. 14).

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As reflected in NCVER (1997), critics consider that any positive benefits of market deregulation and competition are likely to be outweighed by the negative costs in social, economic and educational terms. In order to correct market failure and to protect the public goods of educational quality, equitable access and democratic accountability, critics argue that there is a substantial role and responsibility for government regulation of the market. (Anderson 1997a, 1997b; Doughney 1992; Fooks, Ryan & Schofield 1996; Lundberg 1994; Peoples 1996b).

Fooks, Ryan and Schofield (1996) state that deregulation of quality controls in a training market will reduce the credibility of VET qualifications among employers, hamper the flexibility and portability of graduates, and damage the reputation of the domestic market abroad. They argue that a national quality assurance system in the training market should be established to:

govern the entry and operations of training providers so as to safeguard educational quality and client interests; and determine eligibility for access to public training funds and qualifications recognition.

Anderson (1997a, 1997b) argues that a reliance on competition, market forces and client empowerment is no substitute for effective government regulation. He proposes that market reforms should be accompanied by: adequate government regulation of training inputs (i.e. teachers, facilities, financial protections) and outputs/outcomes (i.e. competency standards, course completion/graduation rates); rigorous quality audits; and severe penalties for breach of regulations. Anderson (1997b, p. 24) suggests that training markets 'will only work effectively and equitably if all parties are aware of their rights and responsibilities, and able to seek fair and just redress for valid grievances'. Consequently, he highlights the need for an independent national education and training ombudsman, supported by a mandatory code of practice for training providers and a charter of consumer rights and responsibilities.

## Key policy issues

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**T**HE FOLLOWING SECTION examines six key policy issues which receive frequent attention in the literature. Other policy issues such as cost-shifting and substitution are discussed elsewhere in this report. Policy issues relating to information and intermediaries are discussed in NCVER (1997).

### Clients and control over training decisions

There is considerable disagreement in the literature over the question of who are the principal clients in the Australian training market (Anderson 1996b; NCVER 1997). ACG (1994a, 1994b) argues that enterprises, rather than individual students, are the major clients in the sense that they are the 'end-users' of the outcomes of training provision (i.e. skills and competencies used for production). According to Donovan (1996) students are 'value-added' intermediaries who can be viewed both as 'buyers' and 'resellers' in the sense that they are individual consumers of training who on-sell their skills to employers. In effect, 'this model validates the view of industry as the end-client, but acknowledges the significant and fundamental role of the individual client within the training market' (Donovan 1996, p. 30).

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Other commentators dispute such definitions arguing that individual students are the major client group. Ryan argues that 'overwhelmingly, the consumer in VET is the individual citizen; yet this most significant of the sector's clients is ignored by government policies purportedly fostering a "client-focussed culture"' (1995, p. 46). A report for the National TAFE Education and Student Services Standing Committee argues that students should be considered the major clients as collectively they comprise the largest group of non-government purchasers and users of VET programs and services (Anderson 1995c).

In recognition of these tensions, ANTA (1996) proposes that enterprises are the 'key clients of the training market' whereas individual students are the 'immediate clients of training providers'. It acknowledges that 'any reform will

need to account for the potentially competing demands of client groups' (ANTA 1996, p. 7). NCVER concludes that 'a clear and agreed definition (of clients) is required before decisions can be made about who to empower and how best to achieve the desired outcomes' (1997, p. 7).

Underlying the ideological dispute over whether individuals or enterprises are the major clients is the fundamental question of who should decide how public resources are allocated. As noted already, one of the principal aims of developing a training market is to empower clients by shifting the locus of control over training decisions to individual consumers. Under current user-choice arrangements, however, there is a dual contradiction between the theory and practice of the training market. Government appears reluctant to cede full control to individual clients, preferring instead to retain ultimate control over resource allocation and to steer individual choices towards economic ends and industry/enterprise priorities. In the latter respect, 'much of the recent reform of the Australian VET system has adopted a classically corporatist rather than individualist approach' (Shreeve 1995, p. 138).

The OECD (1995) detects a significant shift towards 'choice' models of resource allocation, but notes that governments have been unwilling to give free rein to individual consumer preferences. 'For example, where the learning society is supported primarily for its economic benefits, there is a propensity to give "vocationally-relevant" courses privileged funding' (OECD 1995, p. 42). In addition, it notes that governments often wish to: skew public funding towards certain client groups; protect quality by placing conditions on funding; and forecast the impact on public spending. Although some degree of government control may be warranted, the OECD argues that 'governments . . . may often need to resist the urge to intervene and define too closely what kind of learning is suitable for public support' (1995, p. 42).

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## VET products

Much of the literature to date has assumed a natural correspondence between the training market and standard commodity markets. Selby Smith (1994) suggests that the reality is, in fact, more complex, primarily because VET has public good attributes. The OECD notes that 'unlike the commercial market, the educational product's value depends on effective collaboration between consumers and producers, and hence on a good *qualitative* match between demand and supply (1995, p. 15). Other analysts suggest that the application

of the theory and language of marketing to VET devalues its educational purposes and potentially distorts the relationship between teacher and learner (e.g. Anderson 1996c; Kell 1993; Marginson 1993; Yeatman 1994).

Donovan (1996) defines VET products as job-related courses which comprise three related aspects. The *actual* product is what the customer buys or receives (i.e. knowledge, skills, certificate/diploma). For government, industry and employers, the actual product in VET is an appropriately skilled workforce. For the individual student, the actual product is the course content and the certificate of competence. The *core* product is the end goal or underlying benefit(s) sought from the product (why the customer wants the product). For industry, the core product is reflected in increased productivity and profitability; for government, it is the achievement of social and economic policy; and for the student, it is the achievement of employment and lifestyle goals. The *augmented* product includes features which make the product more attractive to the consumer and assist its consumption, for example: availability of child care facilities, convenient location and/or job-placement services.

According to WADOT, taking account of the client's purpose and perceived outcomes of training 'will assist with determining a clear definition of the actual and the core product(s) for the sector' (1996b, p. 68). WADOT notes that the development of the marketing mix (i.e. the product itself, its price, promotion and distribution) is presently shared between State training agencies and providers. For publicly funded courses, both parties have responsibilities in regard to product, price, place, promotion and quality control. In effect, neither party has complete 'ownership' of the product. It argues that as responsibility for training delivery is increasingly devolved to providers 'it is important that decisions about the whole marketing mix are clarified' (WADOT 1996b, p. 69).

48

ACG (1994a) believes that the prevailing conception of VET products is both limited and distorted by current funding models which emphasise inputs rather than outputs. According to ACG, 'the current approach . . . assumes that there is a single product market—the delivery of training courses. The extent to which there is a wider market for curriculum or assessment products remains . . . untested' (1994a, p.41). Instead of focusing on student enrolments as the basis for resource allocation, ACG proposes the development of meaningful outcome-oriented product descriptors and outcome

measurements—specifically, graduate placement rates (or proxies/indicators such as course completion rates) and customer satisfaction levels.

Fooks (1995) notes that there is a substantial difference between the training products offered by TAFE and private providers. He argues that unless there is a common standard or benchmark for defining the nature of training product, there is a risk that support services and other attributes of public TAFE provision which promote access and equity may be shed as an unintended consequence of competition.

## Access and equity

As noted in the discussion of training market failure, a source of considerable concern in the literature is the potentially adverse impact of competition and market reforms on the participation of women and disadvantaged groups. Schofield (1996, p. 22) notes that 'one of the essential unresolved problems of the vocational education and training system is the relationship between social justice and the training market'. Schofield observes that current debate is characterised by a split between market and social justice advocates who work from conflicting, and seemingly irreconcilable, value systems and ideologies: one advocating the economic benefits of market competition, and the other arguing the importance of social justice over efficiency objectives.

From a social justice perspective, Schofield (1996) identifies concerns that: the social policy objectives of market reform are vague; full application of market principles into all parts of VET is unlikely to produce socially just outcomes; and few authoritative tools exist to enable the social costs and benefits of greater competition to be assessed. From a pro-market perspective, she identifies concerns that: social justice advocates represent vested interests; social justice initiatives result in excessive fragmentation of social policy and government reform; and the social justice agenda is driven by an irrational desire to protect public sector monopoly.

Schofield contends that it is possible to forge a consensus between social justice and an efficient training market by: defining clear policy objectives; developing principles to guide the application of competition policy in VET; and undertaking public benefit tests. Specific access and equity issues are discussed in the section dealing with the social impact and consequences of a competitive training market.

## Community service obligations

In an effort to accommodate the non-commercial objectives of VET within a competitive market framework, some analysts employ the notion of Community Service Obligations (CSOs). In general, CSOs refer to socially (and sometimes economically) valuable activities which have been traditionally undertaken by government enterprises but which in a competitive training market would not be viewed by such enterprises as being commercially viable, unless delivered at higher prices. Non-provision of such activities, or provision at higher prices may, in turn, result in sub-optimal investment with undesirable social and economic consequences. Examples of such activities include the delivery of training for: disadvantaged groups; small and medium-sized businesses; and people in rural or remote regions. It is commonly held that CSOs can be protected by ensuring that policy objectives are made explicit, outcomes are specified, and costings are made transparent (ACG 1994b; ANTA 1996).

Research suggests that the concept of CSOs as applied to VET is problematic. In an examination of CSOs as a funding mechanism, KPMG (1996) argues that application of the CSO concept to VET would create artificial distinctions between the social and other policy objectives of government, and between the commercial and non-commercial activities of training providers. It concludes that the concept of CSOs, originally devised in an environment where services are delivered on a predominantly commercial basis, is inappropriate for the funding and delivery of VET programs and services. Other analysts argue that the concept of CSOs is unsuitable on social and educational grounds (Burkhardt & Corben 1996; Powles & Anderson 1996). They argue that the use of CSOs effectively subordinates access and equity goals to efficiency concerns, and attenuates the traditionally broad-based and inclusive notion of social justice in TAFE/VET.

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## Competitive neutrality

As stated earlier, one of the pre-conditions for effective competition in a training market is competitive neutrality; that is, the existence of a level-playing field on which public and private providers can compete on equal terms. Research has identified a range of factors which public and private providers view as unfair advantages enjoyed by their competitors. Private providers consider that TAFE colleges are advantaged by: a capacity for

monopoly trading; ease of access to infrastructure (staff, facilities and curriculum); economies-of-scale; a capacity to cross-subsidise commercial activities from recurrent funds; subsidised tuition fees; government recognition and marketing; and a range of historical factors. Public providers argue that private providers enjoy: greater flexibility and control of resources (particularly human resources); freedom from government interference (e.g. restrictions on fee-charging and accountability requirements); more flexible cost structures; non-reciprocal access to accredited curriculum; and freedom from community service obligations (see variously ACG 1994b; Anderson 1994; Selby Smith 1995; Selby Smith et al. 1996; WADOT 1995, 1996a; Wiltshire 1997).

Anderson (1996a) finds that recent training market reforms have largely equalised the legislative, financial and regulatory conditions under which training providers operate, with the result that few barriers remain to the establishment of competitive neutrality. According to Anderson, the major remaining impediments to competitive neutrality among public and private providers are: continuing direct government subsidisation of recurrent program provision and training infrastructure (staff, capital and equipment) in the public sector. Anderson concludes that the application of the Hilmer competition principles to these two areas would lead to an intensification of intersectoral and intrasectoral competition, and the development of parallel public and private training sectors.

Several analysts argue that establishment of competitive neutrality in accordance with the Hilmer competition principles is one of the main regulatory responsibilities of government in a competitive training market (ACG 1994b; ANTA 1996; Selby Smith 1995; Selby Smith et al. 1996; Taylor 1996). Collectively, they suggest that competitive neutrality necessitates: continuing structural reform in the public VET sector, particularly a clearer separation of the roles of government and service deliverers accompanied by increased institutional autonomy and devolution of administrative and financial responsibility to the provider level; removing barriers to market entry for private providers and restrictions on competitive conduct; developing consistent costing and pricing policies and practices in the public and private VET sectors; facilitating 'third party' (i.e. private provider) access to publicly funded facilities including expensive and specialised facilities (e.g. libraries, student services); sharing responsibility for CSOs among public and private

providers; and developing a common framework for performance reporting and financial accountability.

Research suggests that establishing competitive neutrality on a national basis is problematic. There are significant variations from one State jurisdiction to another in terms of: concepts of the training market and application of competitive funding mechanisms; and administrative and regulatory policies and practices (Selby Smith et al. 1996; Taylor 1996; WADOT 1995, 1996a). Recent attention has focussed on the need for a common-agreed protocol among States and Territories (e.g. mutual recognition arrangements) for promoting competitive neutrality on a consistent national basis. In the absence of a common approach, 'there is a danger that protected or subsidised systems, which benefit from non-transparent subsidies, may be able to compete unfairly with those systems that have exposed themselves to competition' (ANTA 1996, p. 25).

Fooks, Ryan and Schofield (1996) argue that it is essential to ensure competitive neutrality for public TAFE providers. Otherwise, the substantial public investment in training infrastructure, together with associated public goods, will be placed at serious risk. They suggest that the training market, as presently constructed, places public TAFE providers at a major disadvantage. However, while they support government measures to equalise the conditions under which public and private providers compete, they argue that government subsidisation of private providers to facilitate market entry is an inappropriate use of public funds: 'Once the market framework is established, it becomes a matter for entrepreneurs to take a commercial decision in relation to entry or otherwise' (Fooks, Ryan & Schofield 1996, p. 16).

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## Costing and pricing

Issues relating to costing, pricing and charging in the training market have been highlighted by several researchers (ACG 1994a, 1994b; Deveson 1990; Lundberg 1994; Selby Smith 1995; Selby Smith et al. 1996; WADOT 1995, 1996a). As price becomes a more important signal for consumers, and if resources are to be used efficiently, 'training providers . . . need to know the differential resource costs involved in delivering particular training services; and to reflect those costs in their pricing' (Selby Smith et al. 1996, p. 26). Research indicates that providers are generally ill-informed about the true costs of providing training at various levels, to differing groups of students,

and in differing locations. Available cost estimates typically refer only to recurrent expenditures, and capital costs cannot generally be compared between alternative providers (Selby Smith et al. 1996).

Maglen and Selby Smith (1995) find that there have been few studies of costing issues such as best practice; benchmarking; elasticity of demand for different courses; variations due to enrolment size; geographical location; mode of delivery; and the costs of incorporating specific access and equity objectives. Other unresolved costing issues include: the potential conflict between costing/pricing transparency and commercial confidentiality in a competitive market environment; problems posed by historical differences among public training systems; inconsistencies between the bases used by public and private providers for cost calculation; and in relation to third party access, there are unresolved questions about terms and conditions and who sets them (ACG 1994b; Selby Smith et al. 1996; WADOT 1995, 1996).

# Impact and consequences of competition and market reform

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**M**ARKET ADVOCATES ARGUE that market-based competition will result in a range of benefits not available in a non-market VET system. The Steering Committee for the Review of Commonwealth/State Service Provision, for instance, suggests that 'promoting competition in the delivery of VET services could generate efficiency gains and improved outcomes for clients' (SCRCSSP 1997, p.123). Based on an analysis of government-commissioned reports, NCVER (1997, p.3) summarises the benefits of a competitive training market as follows:

- ❖ greater choice and diversity for consumers
- ❖ increased quantity and quality of training provision
- ❖ more flexibility, innovation and responsiveness to client needs
- ❖ reduced wastage of government resources and lower costs for consumers
- ❖ a deeper and more dynamic national skills pool

Burke et al. state that if all the necessary pre-conditions are satisfied, 'it can be demonstrated that such markets lead to production at minimum costs with existing techniques. It will be *efficient* at least in terms of meeting the needs of buyers: with their existing patterns of purchasing power; and assuming that all benefits and costs are private ones' (1994, p. 61). In their opinion, efficient delivery of the product required is the 'major advantage' of a competitive training market.

ANTA identifies a range of benefits likely to flow from the development of a competitive training market:

*The benefits of market reform to vocational education and training are numerous. The end users of training will have more influence over the training they receive. Business will be able to choose quality training from a diverse range of providers across Australia. Barriers will be removed to ensure that those requiring training have a closer relationship with the training provider.*

*Training will also be better targeted and delivered more efficiently, an important consideration in the allocation of public and private funds.* (1996, p. 1)

Although ANTA acknowledges that such benefits will be accompanied by costs, specifically, higher information and transaction costs and a more complex operating environment—'these costs will be of a short term nature and should not detract from the improved longer term viability of a competitive training market' (ibid.).

Several researchers question whether a competitive training market will produce the range of benefits that advocates claim. Even if market competition produces economic benefits, they argue that it is also likely to have adverse social and educational effects. In balance, they suggest that the negative consequences of competition and market reform are likely to necessitate remedial government action (e.g. Anderson 1994; Barnett 1994; Fisher 1993; Lundberg 1994; Lundberg & Cleary 1995). Several critics argue that markets are inherently inequitable and inefficient, and that competition is reducing the quality and accessibility of VET, thereby exacerbating existing social, economic and educational disadvantage (e.g. Anderson 1995b; Fooks 1995; Kell 1993, 1995; Marginson 1993; Miller 1997; Peoples 1996a).

NCVER notes that 'at present . . . there appears to be insufficient empirical evidence either to support or refute claims that increased competition in the training market will produce a wide range of benefits not otherwise possible' (1997, p.4). This section aims to summarise existing research on the impact and consequences of competition and market reform.

One difficulty involved in evaluating the economic (and other) consequences of competition and market reforms is the lack of appropriate definitions, criteria and measurement tools. Schofield (1996) highlights the need for public benefit tests in relation to competition and market reforms. But she notes that 'we have few authoritative tools to assess the economic costs and benefits of a competitive training market and even fewer to assess social costs and benefits of greater competition' (Schofield 1996, p. 23). ACG (1994b) states that the effects of market competition may be 'partly quantifiable', particularly efficiency in the provision of standard training services. However, some will be 'impossible to quantify, particularly improved responsiveness to particular client needs, innovation, dynamism etc.' (ACG 1994b, p. 201).

## Social impact and consequences

Several proponents of competition and market reform concede that there may be adverse effects on access and equity for disadvantaged groups. Selby Smith accepts that 'open and competitive processes are not always consistent with the "public interest" objective' (1995, p. 11). She acknowledges that the capacity of TAFE institutions to address equity and social justice issues may be eroded in a more competitive market. Deveson (1990) argues that the pursuit of efficiency and equity objectives are not mutually exclusive. However, he recognises the need to target special government funding on disadvantaged groups and to introduce an 'equity package' to ensure that equitable access is maintained. Similarly, ACG (1994a, 1994b) identifies a number of potentially adverse impacts on disadvantaged groups, together with the need for adequate protection.

Up-front fees have been identified as a major cause of inequitable access for women and disadvantaged groups (Anderson 1994; Anderson & Hoare 1996; Barnett 1993, 1994; Golding & Volkoff 1997; Powles 1990; Powles & Anderson 1996). Research also suggests that the increasing reliance on private providers in the context of the training market may residualise access and equity issues (Anderson 1994; Barnett & Wilson 1995).

Research on the social impact of competitive tendering is less conclusive. In a study of competitive tendering processes in the training market, WADOT (1995, 1996a) finds 'little evidence' of any adverse impacts on access and equity. It argues that tender guidelines can be designed to address the needs of special target groups. Conversely, research for the National TAFE Education and Student Services Standing Committee suggests that the quality, level and accessibility of TAFE support services for disadvantaged groups has declined as a consequence of competitive tendering (Anderson 1995c).

Research suggests that the increasing reliance on private providers in the context of the training market is residualising access and equity issues. In a comparative study of TAFE and commercial training providers, Anderson (1994) finds that private providers regard the promotion of access and equity for women and disadvantaged groups as the responsibility of public sector providers. Anderson contrasts the restricted and passive concept of access and equity employed by private providers with the open and active approach taken by TAFE colleges as reflected in their commitment to provide adequate

support services such as child care, counselling and access courses. Unlike TAFE providers, private providers tend not to develop access and equity policies and are 'ill-equipped and disinclined to respond to the full range of disadvantaged student needs' (Anderson 1994, p. 201). The high levels, and selective effects, of fees are identified as the principal barrier to access in the private sector. As a result, 'increased government reliance on private providers may lead to greater inequalities in access to and the distribution of training opportunities' (Anderson 1994, p. 202).

Anderson's findings are confirmed by Barnett and Wilson (1995) in a follow-up comparative study of commercial and community providers. They conclude that in the absence of *appropriate* policy interventions by government, there will be 'a segmentation of the public and private sectors, with disadvantaged groups being able to access public training resources and not those of the private training sector' (1995, p.xiii). They suggest that there is a need to share accountability for access and equity outcomes between public and private providers; and to provide adequate resources, support and access to expertise to assist private providers to develop appropriate policies and practices.

Initial research on user choice indicates that its strong enterprise focus could marginalise access and equity considerations unless preventative steps are taken. Selby Smith et al. state that 'encouraging a commitment to access and equity by employers, employer groups and private training providers remains an important issue requiring resolution if the potential of User Choice to improve access and equity is to be achieved' (1996, p. 17).

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57

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## Economic impact and consequences

The principal benefits which advocates claim will result from a competitive training market are economic, primarily greater efficiency and responsiveness to enterprise needs. Raising private investment in VET and generating an industry training culture are also identified as potential economic benefits (ACG 1994a, 1994b; ANTA 1994c; Curtain 1995; Deveson 1990; Sweet 1993, 1994).

There is currently no empirical evidence to suggest that competition and market reforms to date have increased either efficiency or responsiveness. As ACG (1994a, p. 15) notes:

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Impact and consequences of competition  
and market reform

*The reported results of the reforms to date invite more critical analysis. Many are descriptions of activities rather than results which demonstrably contribute to stated or fundamental objectives. For example, it is not clear if the introduction of open tendering (has) improved efficiency and responsiveness.*

Available research suggests that competitive tendering has probably reduced the price of publicly funded training (ACG 1994a). Beyond making training places cheaper for government to purchase, no other positive economic effects can be identified on the basis of existing research. For instance, there is no clear evidence to show that competitive market processes have increased cost-efficiency or effectiveness in the utilisation of public VET resources. As WADOT notes, 'little cost/benefit analysis work has been done in relation to competitive training market processes, even in a strict cost efficiency sense' (1995, p. 25). ACG suggests that the level of transaction costs associated with competitive funding processes 'may be the most important reason for maintaining an area of non-market (public service) provision' (1994b, p. 210). The literature suggests therefore that detailed cost/benefit analyses are required to determine whether competitive funding processes are, in totality, more efficient and cost-effective than direct funding models.

ACG (1994a) finds evidence of widespread dissatisfaction among business and industry clients with the perceived lack of responsiveness, flexibility and relevance of much training provision. In part, ACG attributes this problem to the effects of competitive tendering because it focusses on increasing 'competition between provider at the expense of . . . promoting closer links between the supply and demand sides (of the market)' (1994a, p. 28).

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58

The extent to which competition and market reforms in VET have raised private investment and generated a training culture in industry in VET is difficult to determine on the basis of available research evidence. ABS (1996) reports that 73 per cent of commercial training providers attribute growth in their level of training activity to increased employer awareness of the importance of training. The extent to which this effect can be attributed to competition and market reform is unclear. Conversely, 38 per cent of commercial training providers reported that competition from TAFE or universities was a major contributing factor to decreased levels of training activity.

In an analysis of the changing dimensions of education and training in Australia since 1988, Burke (1995a) finds that training expenditure by both public and private sector employers has increased more rapidly than employer provision of formal training. Moreover, he finds that the proportion of total revenue derived by public VET institutions from government sources decreased from 89 per cent in 1989-90 to 86 per cent in 1993. Income from non-government sources rose by three per cent during the same period, most of which was the result of an increase in fee-for-service activity, a substantial proportion of which was funded by Commonwealth LMPs. Burke also shows that between 1989-90 and 1993, national VET revenue from fee-for-service activities increased by 158 per cent and revenue from student fees and charges grew by 44 per cent. He also identifies an above average expansion of courses for operatives, basic employment and educational preparation, and associate diplomas. But, as Burke notes, 'it is difficult from the quantitative data to measure the extent to which the changes . . . have led to closer orientation to employer needs' (1995a, p. 40).

Developing a training culture and increasing levels of industry investment in training were two of the main objectives of the now-defunct Training Guarantee Levy. However, as Teicher (1995) notes, limited success was achieved on both fronts. In terms of industry investment in training, ACG finds that the training reforms have resulted in only 'marginal changes in the balance between public and private funding of vocational education and training' (1994a, p.31). ACG (1994a) and Wiltshire (1997) suggest that supply-side competition and market reforms have not been successful in creating a genuine training culture in industry. Both the latter researchers highlight the need to develop demand-side strategies to raise industry investment and employer awareness of the value of training.

Research highlights several potentially negative economic consequences of competition and market reform. Dis-economies of scale may arise if TAFE colleges are subject to increasing competition from private providers. More generally, the short-term nature of training contracts awarded under existing tendering arrangements, together with the lack of guaranteed continuity of funding, may pose difficulties for training providers, particularly TAFE. The negative impact of competitive market processes on public providers is likely to be greater in rural and regional areas (see variously ACG 1994b, Anderson 1994, 1996a; Kell, Balatti & Muspratt 1997; Selby Smith et al. 1996; WADOT

1995, 1996a). Fooks (1995) argues that such trends may place the substantial public investment in TAFE infrastructure at risk.

Several researchers have identified private provider dependence on government funding as an unintended consequence of competition and market reforms (Anderson 1994; ANTA 1996; Coopers & Lybrand 1996; WADOT 1995, 1996a). Were such a trend to continue, duplication of training provision between the public and private sectors may result with a consequent reduction in the overall efficiency of resource utilisation.

Some evidence exists to show that demand-driven training provision may result in a misallocation of resources. Anderson (1994) finds that private providers in the open or commercial market sector tend to respond to trends in individual consumer demand rather than trends in industry demand for skills. As a consequence, 'there are likely to be gaps and duplication in the provision of skills training in a market-driven system (and) a potential wastage of human talent and training resources' (Anderson 1994, p. 206).

Research suggests that competitive funding processes may result in cost-shifting and substitution of public for private training resources (Coopers & Lybrand 1996; Kronemann 1996; Selby Smith et al. 1996; WADOT 1995, 1996a). If a significant shift in the public and private balance of economic costs/benefits was to occur, 'the traditional arguments about the proportion of training costs to be borne publicly need to be critically re-examined' (Selby Smith et al. 1996, p. 11, *their italics*). Other research suggests that the prevention and detection of cost shifting and substitution in a training market is problematic (Ryan 1995; WADOT 1995, 1996a). ANTA argues that 'cost shifting is a distraction from the real issue of the importance for government to clearly define what it will fund and the further separate issue of what provider is best placed to carry out the training' (1996, p. 15).

Coopers and Lybrand (1996) reach mixed conclusions about the economic impact of user choice. On the one hand, they suggest that user choice may lead to greater efficiency in the utilisation of human and financial resources in both firms and the public training system. On the other hand, they identify several potential problems including: underutilisation of public training resources; unnecessary duplication; and a commitment of resources to marketing and competition rather than educational development and delivery. The economic consequence for the taxpayer would be 'inefficient use of public funds'

(Coopers & Lybrand 1996, p. 58). ANTA notes that 'consideration will have to be given to balancing the potential costs of an underutilised TAFE system with the potential gains from greater efficiency in a more diverse market' (1996, p. 22).

## Educational impact and consequences

The precise impact of competition and market reforms on the nature and quality of VET provision is difficult to assess on the basis of existing research. Market advocates hold that 'high cost or inefficient training providers will lose out through competition to those trainers providing a better quality or more efficient service' (Deveson 1990, p. 9). But, as Fooks (1995) points out, there is a lack of empirical evidence to support such claims. Moreover, perceptions of quality are highly subjective and there are currently no agreed definitions or criteria for measuring and comparing quality in a consistent and meaningful way over time or among providers (ACG 1994b; Anderson 1994).

Most concern has focussed on the effects of competitive tendering on educational quality (ACG 1994b; Carmichael 1992; Fooks 1995; Yeatman 1994). ACG notes that 'the extensive experience in other sectors with competitive tendering and contracting out points to some problems which can occur in any sector—e.g. problems in protecting service quality' (1994b, p.200). Some evidence exists to show that intensive price competition under competitive tendering forces providers to cut costs by reducing resource-intensive educational support services (Anderson 1994, 1995c; Kell, Balatti & Hill 1996; Kell, Balatti & Muspratt 1997).

Other research suggests that competitive tendering may enhance quality, provided that tender-design processes and selection criteria place equal emphasis on price and quality (CESAC 1992; WADOT 1995, 1996a). WADOT finds 'no evidence' that quality has been undermined by competitive tendering processes, but notes that 'good comparative data is lacking to enable any real assessment of the impact of those processes on the quality of training' (1995, p. 22). Several researchers identify the need for further investigation of the impact of competitive tendering on educational quality (ACG 1994b; Anderson 1994; Lundberg 1994).

Research shows that competition and market reforms are changing the structure, composition and balance of the publicly funded and recognised VET

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sector (Anderson 1996a). Specifically, the number of publicly recognised private providers has increased steadily since the introduction of NFROT. Conversely, there has been a reduction in the number of public TAFE providers as a consequence of amalgamations. Overall, Anderson (1996a) concludes that greater numerical flexibility in the national VET system has increased provider diversity and client choice, except in the non-services sector and in non-metropolitan areas.

The extent to which the increase in the number of publicly recognised providers has contributed to greater diversity in the type and quality of training (as distinct from providers) is unclear. Preliminary research suggests that the introduction of nationally consistent competency standards as benchmarks for course development and accreditation may be contributing to an increasing homogenisation of training provision (ACG 1994b; Anderson 1994).

There is a growing body of evidence to suggest that competition and market reforms are altering the educational profile of TAFE providers. Several researchers find that TAFE is shedding high-cost programs regardless of their social or economic value, and diverting resources from traditional educational activities to business development and marketing (see variously Anderson 1994; Brown et al. 1996; Hammond 1992; Kell, Balatti & Hill 1996; Miller 1997). However, research on TAFE managers' perceptions of the impact of training reforms suggests that the positive effects of competition and market reforms on quality may outweigh the negative effects (Lundberg 1996). Around 12 per cent of survey respondents reported that competition and a greater client focus has had a positive influence on quality. By comparison, around six per cent identified tendering and user pays/competitive funding as negative influences on quality.

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## Political impact and consequences

Market reforms may have unintended and contradictory political consequences. As noted already, considerable emphasis is placed by market advocates on the need to strengthen accountability by devolving responsibility for outcomes to service providers. One consequence is that governments themselves can no longer be directly held to account for the financial and educational performance of sub-contracted providers (Anderson 1995b; Kell 1995).

Transparency of costs and funding processes is frequently highlighted as a pre-condition for effective market competition. Yet, the conduct of competitive funding processes on a 'commercial-in-confidence' basis obscures the processes and criteria employed by government departments to allocate public resources. For the same reason, expenditure of government funds by sub-contracted providers is shielded from public scrutiny. In effect, the principles underlying competition and market reforms may result in a loss of democratic accountability (Anderson 1995b; Ryan 1995). On this account, ANTA notes that 'as more registered private providers gain access to public recurrent funds, appropriate accountability mechanisms will need to be established to ensure that agreed results are achieved with public funds' (1996, p. 17).

Among the main effects of competition and market reforms in VET, to date, has been a diversification of the financial sources of public TAFE providers and an atomisation of the organisational structure of the TAFE system (Anderson 1994; Brown et al. 1996; Kell 1993). Competition reforms are likely to increase the degree of financial and institutional autonomy enjoyed by public training providers with a corresponding loss of control by government over their policy and resource priorities. In consequence, competition and market reforms may reduce the capacity of governments to promote public policy objectives and implement reform in an integrated manner across different spheres of social and economic life (Anderson 1994; Marginson 1993).

## Overview of impacts and consequences

Due to the relative novelty of competition and market reforms, together with the lack of comprehensive data and research on their effects, it is premature to reach definitive conclusions about their potential impact and consequences. However, it is clear that the economic benefits of competition and market reforms in the VET sector are yet to be substantiated.

Moreover, available research and data suggest that they may be outweighed by adverse social, economic, educational and political consequences. Before a final verdict can be delivered either way, there is a need for further investigation of the impact and consequences of the full range of competition and market reforms in the VET sector.

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As one example, WADOT (1996a) acknowledges that competitive tendering processes have both 'beneficial' and 'detrimental' consequences. However, it also notes that 'the implications of competitive tendering of VET for providers, industry and students are still far from being fully identified and understood' (WADOT 1996a, p. 46). The same observation applies to other competition and market reforms in the VET sector.

# Findings and directions for further research

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**T**HE DEVELOPMENT OF a competitive training market entails a fundamental and comprehensive redesign of institutional structures, cultures and practices in the Australian VET sector. Substantial changes have already been made to financial and delivery arrangements for VET since the training market concept was first endorsed in 1990 by Commonwealth, State and Territory governments. Most of the early reforms focussed on changes to the supply side of the training market. Efforts were directed primarily at increasing competition among providers through competitive funding mechanisms controlled by government. Current proposals have shifted the focus of competition and market reform to the demand side of the training market. Now, the main objective is to enhance provider responsiveness by empowering clients to make training decisions. Each of these different strategies has major implications for the roles, responsibilities and relationships of key stakeholders, in particular for the role of government with respect to funding and regulation.

As reflected in this report, the nature, impact and consequences of competition and market reform have engendered considerable debate among policy-makers, researchers and affected parties in the VET sector. The co-existence of, and tensions between, competing perspectives does not negate the possibility of reconciliation. Sufficient common ground exists to enable agreement to be reached over how a training market could be most effectively funded and regulated, and about the nature and degree of competition and co-operation that should prevail. As Schofield notes, 'there are some values which most in the VET business would share (and) there is more common ground between social justice and an efficient training market than current debate allows' (1996, p. 22, 23). For instance, there is little dispute over the fundamental importance of VET in social and economic terms, or the need to share the costs and benefits of competition and market reform in an efficient and equitable manner.

The challenge confronting the VET sector, at present, is to define this common ground and engage in open and constructive debate about the most effective way forward. This, in turn, requires that consensus be reached about: the policy objectives of a competitive training market; the roles and responsibilities of public and private stakeholders; and the rules and expectations which should govern the behaviour of participants at all levels. Differences of opinion will always remain. But provided that all parties have an opportunity to contribute to the debate, the prospect of achieving broad agreement over policy priorities and directions will be maximised.

Of equal importance is the need to ensure that the nature, impact and consequences of competition and training market reform are fully understood. Choices and decisions about strategies for the development of a competitive training market need to be well-informed. The formulation of policy options and strategies should be based, as far as practicable, on empirical evidence rather than on ungrounded claims and counterclaims about possible advantages and disadvantages.

Although there is a growing body of research on competition and market reform in the VET sector, the knowledge and information bases remain limited in key respects. Conceptual frameworks and data for analysing the size, structure and composition of the training market require further development. Additional research is required on the extent to which current market conditions satisfy the pre-conditions for an effective training market, specifically in relation to: the structure and composition of the supply and demand sides of the market; the nature of VET products; and the information requirements of clients and providers. More research is required on the efficiency and cost-effectiveness of the various models for competition and market reform, and their relative appropriateness for different market sectors.

Most importantly, there is a need to develop a better understanding of the costs and benefits of competition and market reforms. Such research would provide a more effective basis for determining the appropriate division of funding responsibility among key stakeholders, and for developing effective models of regulation. Finally, a comprehensive evaluation of the impact of competition and market reforms to date should be undertaken. Without such knowledge, it will remain difficult to identify the social, economic, educational and political consequences, both intended and unintended, of competition and market reform in the Australian VET sector.

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This review of research on vocational education and training is one of a series of reports commissioned to guide the development of future national research and evaluation priorities.

Damon Anderson has reviewed the way competition and market reform have affected vocational education and training in the last six years. He draws conclusions relevant to vocational education and training policy and identifies areas for further investigation.